

SAN BERNARDINO COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 1999

CALIFORNIA STATE BOARD OF EQUALIZATION

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E. L. SORENSEN, JR., EXECUTIVE DIRECTOR



FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county, (2) determining a property's eligibility for a full or partial exemption from assessment, (3) determining the proper assessee, (4) determining the location for assessment purposes of the property, and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization (BOE) has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the BOE's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and any BOE comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the San Bernardino County Assessor's Office was completed by County Property Tax Division staff from September, 1997 through January, 1998. This report does not reflect changes implemented by the assessor after the field work was completed.

The Honorable Donald Williamson, the San Bernardino County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
February 1999

COUNTY PROPERTY TAX DIVISION SURVEY GROUP

SAN BERNARDINO COUNTY SURVEY

Survey Program Director:

Charles Knudsen

Principal Property Appraiser

Field Sample Team Supervisor

Claudia Tendal

Supervising Property Appraiser

Field Sample Team

Norwalk Field Office

Office Survey Team Supervisor

Claudia Tendal

Supervising Property Appraiser

Office Survey Team

Hadley Alger

Senior Specialist Property Auditor
Appraiser

James McCarthy

Senior Petroleum and Mining
Appraisal Engineer

Beverly Morrison

Associate Property Auditor Appraiser

David Dodson

Associate Property Appraiser

Robert Curry

Associate Property Appraiser

Robert Donay

Associate Property Appraiser

Douglas Williams

Associate Property Appraiser

Tina Krause

Assistant Property Appraiser

Delia Garcia

Tax Technician

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EXECUTIVE SUMMARY

INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization (BOE) shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the BOE's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the County Property Tax Division (CPTD).

This report is the culmination of a review of the San Bernardino County Assessor's operation that began with CPTD research in the assessor's office in September and October of 1997, and concluded with staff appraisals of sample properties between November 1997 and February 1998. The appraisal sample, which consisted of properties selected on the basis of assessment category and assessed value, was drawn from the 1997-98 assessment roll. First, the survey team reviewed the assessor's current operations (as of November 1997) to determine whether significant problems identified in either the prior survey report (published March 1991) or the sampling of the 1986-87 assessment roll continue to exist or have been corrected. The team also reviewed numerous other operations that represent common challenges to California assessors' offices or that are of particular importance in San Bernardino County up to and as of February 1998.

As directed by section 15642 of the Government Code, this report contains summaries of the volume and types of assessment work required of the San Bernardino County Assessor, the responsibilities devolving upon the assessor, and the extent to which assessment practices are consistent with or differ from state laws and regulations. Finally, the report focuses on problems identified by our survey team and includes recommendations and suggestions to help the assessor resolve those problems.

OVERVIEW OF THE SAN BERNARDINO COUNTY ASSESSMENT ROLL

The CPTD's field appraisal team completed appraisals of 326 properties of all types assessed on the 1997-1998 San Bernardino County assessment roll. This roll contained a total of 746,960 assessments having a total enrolled value of \$72,322,278,188. (For a detailed explanation of CPTD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by property type as follows:

Property Type	No. of Assessments In County	Enrolled Value
Residential	656,679	\$49,050,876,519
Rural	2,680	\$887,329,600
Commercial Industrial	70,247	\$21,694,786,324
Miscellaneous	17,354	\$689,285,745
Totals	746,960	\$72,322,278,188

This survey was conducted according to the method mandated by section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

SUMMARY

Revenue and Taxation Code section 75.60¹ requires the BOE to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute. And, the sum of the absolute values of the differences must not exceed 7.5 percent of the total amount of the county's assessed value as determined by CPTD in its assessment survey.

Based upon CPTD's sampling of its 1997 roll, San Bernardino County is eligible for reimbursement of the costs associated with administering supplement assessments. The county's preliminary expansion ratio indicated an average assessment level of 101.82 percent. The sum of the absolute values of the differences was calculated at 3.01 percent. This indicates that the assessor's program complies substantially with property tax statutes.

¹ **Footnote:** All section references pertain to the Revenue and Taxation Code unless otherwise noted.

Since our previous survey dated 1991, the San Bernardino County Assessor's Office, like many others, has had to deal with significant budget reductions. Coupled with these budgetary constraints was an economic recession that produced declining real estate values and dramatic increases in assessment appeals. Since 1996, the State-County Property Tax Administration Program (PTAP), which is a state administered loan program for county assessors' offices, has many times filled the gap between inadequate resources and increased workload.

San Bernardino County's loaned funding totalled \$2,139,938 per year for 1996, 1997, and 1998. One way to 'do more with less' is increased utilization of computers. Consequently, a significant portion of the state funding has been targeted to new computer hardware, software, or technical expertise. For example, the existing property tax computer system is currently being rewritten and the use of computer imaging in the homeowners' exemption program has reduced staffing needs and eliminated onsite storage of homeowner exemption filings. Taxable government-owned properties are now being tracked and valued by computer, and the information stored on disks. One regional office uses a computer program to track and value possessory interests, and two new system analyst positions are being used to develop automated programs for decline in value assessments and assessment appeals. Loan monies were also used to hire appraisal technicians for field canvassing for discovery and updating of business property records. In addition, personal computers and upgraded software were purchased for the business division staff.

We commend the assessor for what appears to be a well run assessment appeals program, prompt and personal attention to disaster relief, the implementation of our previous recommendation to train appraisal personnel in correct disaster relief procedures, and our suggestion to revise the wording on the disaster relief application. The assessor has an efficient computerized supplemental roll assessment program, and we commend him for implementing previous recommendations pertaining to mining properties such as revising working capital calculations, use of mid-year discount factors, and obtaining a personal computer for the mineral appraiser. Additionally, we commend the assessor for revising procedures in the administration of low-value business property so as to ensure that only certified auditor-appraiser staff make value judgments.

The following pages of this report present recommended changes to various assessment programs. These include adding imputed interest for owner supplied funds to the replacement cost approach and reviewing and updating locally developed cost factors. In addition, we recommend properly classifying tenant improvements and the revaluation and enrollment of completed construction in process at market value. We also found that decline in value assessments are routinely indexed by the inflation factor instead of annually reviewed, and we recommend the assessor refrain from such indexing.

Several of our recommendations concern the assessment of agricultural or California Land Conservation Act property. For example, the use of the county average crop production should be discontinued on individual properties, and a level-terminal income premise used when appraising level producing orchards and vineyards in transition from agricultural to urban use. And, charges for return on and of investment in nonliving improvements and recapture of irrigation wells should be deducted from gross income. Furthermore, permanent irrigation systems and new wells should be identified, classified, and assessed according to the provisions of the Revenue and Taxation Code.

The assessor's mandatory audit program is our greatest concern. In 1992, budget cuts reduced the business division audit staff from 18 auditor-appraisers to only four and one-half auditor appraisers. These staff cuts and an increasing number of mandatory audits resulted in a serious backlog. Though PTAP funding allowed the assessor to hire two auditor-appraisers in 1996 and four more in 1997, a sizeable backlog remains, and we strongly recommend that the assessor bring the mandatory audit program up to current status.

RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the San Bernardino County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.² Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present;
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue;
- Existing appraisal practices do not conform to BOE-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

The following is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

RECOMMENDATION 1: *Request that the board of supervisors revise the county's low-value property exemption resolution to conform to section 155.20. 14*

RECOMMENDATION 2: *Cite the proper caption as required by section 531.8 when providing taxpayers with notices of proposed escape assessments. 17*

² Government code section 15645 provides, in relevant part: "Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of the response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate."

RECOMMENDATION 3:	<i>Revise the fee for public inspection of the two-year transfer list to the amount provided by section 408.1.</i>	24
RECOMMENDATION 4:	<i>Revise new construction assessment procedures by: (1) insuring that an imputed interest charge for owner-supplied construction funds is included in the appraisal of large commercial and industrial properties valued by the replacement cost method; and (2) reviewing and updating replacement cost factors used to value new construction.</i>	27
RECOMMENDATION 5:	<i>Properly classify tenant improvements.</i>	29
RECOMMENDATION 6:	<i>Revalue construction in progress on the lien date or completed new construction on the date of completion at market value.</i>	30
RECOMMENDATION 7:	<i>Do not apply the inflation factor to decline in value enrollments.</i>	31
RECOMMENDATION 8:	<i>Revise the CLCA program by: (1) valuing individual properties based on their production capability; and (2) using an appropriate income premise when appraising producing orchards and vineyards in transition from agricultural to urban use.</i>	34
RECOMMENDATION 9:	<i>Deduct charges for: (1) return on and of investment in nonliving improvements; and (2) recapture of irrigation wells from the gross income being capitalized.</i>	35
RECOMMENDATION 10:	<i>Revise desert grazing land valuation procedures by: (1) using current market rents in determining animal unit month (AUM) rents; and (2) calculating rent per acre as outlined in Assessors' Handbook Section 521 (AH 521), Appraisal of Agricultural and Open Space Properties.</i>	36
RECOMMENDATION 11:	<i>Identify, classify, and assess permanent irrigation systems and new wells according to the provisions of Rule 124.</i>	37
RECOMMENDATION 12:	<i>Classify and enroll manufactured homes, except those on approved permanent foundations, as personal property.</i>	40
RECOMMENDATION 13:	<i>Review all timeshare assessments.</i>	43
RECOMMENDATION 14:	<i>Appraise mineral properties as a unit.</i>	44
RECOMMENDATION 15:	<i>Bring the mandatory audit program to current status.</i>	45
RECOMMENDATION 16:	<i>Revise vessel assessment procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; and (2) applying late filing penalties only when using Board-prescribed forms.</i>	50

SUGGESTIONS

SUGGESTION 1:	<i>Revise disaster relief assessment practices by: (1) expanding methods of discovering disaster relief; and (2) establishing and maintaining a central file or listing of properties which apply for, receive, or are denied disaster relief.</i>	15
SUGGESTION 2:	<i>Update appraisal procedure manuals.</i>	19

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SUGGESTION 4:	Use a holding period that reflects market assumptions when valuing properties using a discounted cash flow analysis.	25
SUGGESTION 5:	Initiate a program for spot-checking self-reported new construction.	27
SUGGESTION 6:	Revise the CLCA program by designing a questionnaire for obtaining production, income, and expense information on orchards, vineyards, and irrigated croplands.	33
SUGGESTION 7:	Make annual reviews of manufactured home values to compare factored base year values and current market values.	41
SUGGESTION 8:	Ensure that all mandatory audits are computer-identified.....	47

ADMINISTRATION

BUDGET AND WORKLOAD COMPARISONS

The following illustration utilizes the State Board of Equalization's *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices, 1995-96*, dated May 1997. This report is a compilation and analysis of data by the BOE's Policy, Planning, and Standards Division (PPSD) originating from an annual questionnaire, which is sent to all assessors. The data was voluntarily submitted by the assessors and has not been audited by BOE staff.

The purpose of our illustration is to see how the San Bernardino County Assessor's Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the San Bernardino County Assessor's Office, or that of its comparables, are not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike, and a variety of factors can greatly affect individual budget and workload comparisons.

Total Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the San Bernardino County Assessor's Office is Total Local Roll Units. Roll size could be indicative of a minimally acceptable staff and budget level. In other words, counties close in number of roll units would presumably need similarly sized staff and budget. Of course property type mix, ratio of rural to urban uses, and county size are also important influences, but in general, Total Local Roll Units is considered a valid starting point.

Table 1. Comparison of San Bernardino County with similar counties, based on Total Roll Units (unaudited data).

County	Total Roll Units	Total Secured Roll Units	Total Unsecured Roll Units	Total Net Roll Value in 000's
Sacramento	445,404	375,240	70,164	\$ 54,068,886
Santa Clara	516,283	427,146	89,137	\$117,800,438
Riverside	656,618	625,065	31,553	\$ 74,730,563
San Bernardino	750,440	682,712	67,728	\$ 73,561,921
Orange	873,388	742,216	131,172	\$176,842,990
San Diego	892,815	815,178	77,637	\$149,254,498
Average	689,158	611,260	77,899	\$107,709,883

Staffing

Table 3 shows staffing levels by the following units: Assessor & Other Managers, Real Property Appraisers, Business Property Auditor-Appraisers, and Total Staff.

Table 3. Staffing levels of San Bernardino County compared to similar counties (unaudited data).

County	Assessor & Managers	Real Property Appraisers	Auditor-Appraisers	Total Staff
Sacramento	8	51	18	135
Santa Clara	11	72	44	245
Riverside	11	56	3	135
San Bernardino	10	60	10	153
Orange	6	81	40	288
San Diego	11	69	31	279
<i>Average</i>	<i>10</i>	<i>65</i>	<i>24</i>	<i>206</i>

Table 4 shows workloads by staffing unit and roll value per staff member calculated by dividing the appropriate secured and unsecured roll units or total roll value by the staffing level.

Table 4. Workloads by staffing unit of San Bernardino County compared to similar counties (unaudited data).

County	Secured Roll Units Per Appraiser	Unsecured Roll Units Per Auditor-Appraiser	Total Roll Value Per Staff Member
Sacramento	7,358	3,643	\$400,510,000
Santa Clara	5,933	2,162	\$457,691,000
Riverside	11,162	11,991	\$553,560,000
San Bernardino	11,379	5,726	\$480,797,000
Orange	9,163	3,525	\$614,038,000
San Diego	11,814	2,909	\$534,962,000
<i>Average</i>	<i>9,468</i>	<i>4,993</i>	<i>\$506,926,000</i>

In any given year, only a portion of the secured and unsecured units may involve current appraisal work. Units worked in the 1995-96 assessment year per appraiser and auditor-appraiser are shown in Table 5.

Table 5. Workloads by roll units in San Bernardino County compared to similar counties (unaudited data).

County	Number of Real Property Units Worked	Units Worked Per Appraiser	Number of Unsecured Units Worked	Units Worked Per Auditor-Appraiser
Sacramento	67,149	1,316	65,589	3,643
Santa Clara	166,147	2,307	95,168	2,162
Riverside	238,086	4,251	35,974	11,991
San Bernardino	320,669	5,344	57,265	5,726
Orange	223,013	2,753	141,028	3,525
San Diego	279,077	4,044	90,199	2,909
<i>Average</i>	<i>215,690</i>	<i>3,336</i>	<i>80,870</i>	<i>4,993</i>

STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

Section 95.31 provides that upon recommendation of the assessor and by resolution of the county board of supervisors, a county may elect to participate in the State-County Property Tax Administration Program (PTAP). The majority of California counties participate in the program.

To participate, a county must enter into a loan agreement or contract with the State Department of Finance to enhance its property tax administration system, reduce backlogs of reassessments,

and maximize assessment capabilities. The loan cannot be used to supplant the assessor's current level of funding, and the county must maintain a base staffing level, independent of the loan proceeds, that is equal to the levels in the 1994-95 fiscal year. Each contract contains performance measures that must be met in order to have the loan amount forgiven. Meeting these performance measures would, in theory, generate property tax revenue to schools greater than, or equal to, the loan amount.

In February, 1996, the San Bernardino County Board of Supervisors, upon the recommendation of the assessor, elected to participate in PTAP for the period beginning with calendar year 1996 and ending June 30, 2000.

Under the contract, the State agreed to loan the county \$2,139,938 for each calendar year 1996, 1997, and 1998. San Bernardino County agreed to maintain staffing and total general fund levels equal to or exceeding those of the 1994-95 fiscal year. The county agreed to use these funds to reduce backlogs in the following assessment categories:

- assessable new construction
- reappraisable changes in ownership
- assessment appeals
- declines in value (commonly referred to as Proposition 8)
- mandatory business audits

For the initial loan, the assessor proposed PTAP fund allocations for recruitment of appraisers, systems analysts, clerical staff, and upgraded data processing systems. Approximately \$1.5 million was allocated for hardware and software purchases to enhance and augment the existing automated property information system.

San Bernardino County's contract specifies the performance measures that must be met to have the loan amount forgiven. The assessor must report the actual workload, the number of reassessments completed, and the average increment of assessed value change generated by reassessments. Under the contract terms, the county's auditor-controller must verify the assessor's reported figures and calculations. The assessor reported, and the auditor-controller verified by audit, that the required "percentage of success," as defined in the contract, was achieved for each of the assessment categories. The following table shows the added assessed value resulting from the enrollment of backlogged assessable events for fiscal year 1995-1996, the total of which is estimated to be in excess of \$1,418,300,000.

Table 6. San Bernardino County's performance by assessment category per AB 818 contract.

Assessment Category	Actual 95/96 Workload + Starting Backlog	Number of Assessments Completed 95/96	Backlog as of 6/30/96	Number of Backlog Assessments Completed	Assessed Value from Backlog Assessments
New Construction	59,709	52,718	6,991	6,436	\$1,004,016,000
Reappraisable Transfers	93,357	84,887	8,470	5,605	\$67,035,800
Assessment Appeals	21,537	7,320	14,217	7,320	\$219,600,000
Mandatory Business Audits	1,155	375	780	171	\$102,600,000
"Prop 8" Assessment Reviews	162,678	146,270	16,408	6,270	\$25,080,000

TRAINING

The Revenue and Taxation Code contains specific educational and training requirements that must be met and maintained for a person to perform the duties of a county property appraiser for property tax purposes. Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE.

Section 671 further provides that all appraisers shall complete at least 24 hours of approved training each year in order to retain a valid appraiser's certificate. Advanced appraisers need only 12 hours of training each year. The BOE is charged with ensuring that these requirements are met.

To qualify for an advanced appraiser's certificate, an appraiser must have a minimum of six BOE courses with at least two courses classified as advanced. Outside courses that can be substituted for a BOE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

Training requirements of the appraisal staff are tracked using a computerized database. All of the appraisers who are qualified to receive an advanced appraiser's certification have done so.

Most of the assessor's appraisal staff currently meet the statutory continuing education requirements. Of the 75 appraisers and auditor-appraisers on staff, 11 are deficient in required training. Most of these deficiencies are 13 hours or less. However, one appraiser has a deficit of 45 hours. The assessor should ensure that his entire appraisal staff obtain the necessary training to meet the statutory requirements of section 670.

The Consolidated Memorandum of Understanding (MOU) between the County of San Bernardino and employee collective bargaining units provides for certain training expenses incurred by employees to be reimbursed by the county. The agreement allows for \$300 per appraiser (non-management) and \$500 per principal appraiser per fiscal year for tuition costs incurred for job-related education or career development, or reimbursement for membership dues in professional organizations.

Furthermore, the assessor's office has budgeted additional training funds to be used for BOE courses and for training that exceeds the \$300 training allotment provided in the MOU. For the fiscal year 1996-97, the assessor's office training expenses were \$12,891.

The assessor encourages continued education. Even if funds are not available for training, work release time is given to the appraisal staff for approved job-related college courses or appraisal seminars. In addition, various local college catalogs are on hand and notices of upcoming appraisal seminars are circulated to the staff.

COMPUTER SYSTEMS

The existing property tax computer system is a COBOL-based database, which originated in the 1970's and is both difficult and expensive to modify. The unsecured and secured assessment rolls are extracted separately from this database. The county maintains a WAN (wide area network) for all county departments, and each of the assessor's district offices have a LAN (local area network) system. The database is currently being rewritten to accommodate the year 2000 and to enhance various assessment functions such as value input, property characteristics entry, building permit tracking, and declines in value. The first phase of this database rewrite project is scheduled to be completed in July, 1999.

A significant portion of the PTAP funding received by the San Bernardino County Assessor's Office was used to purchase new hardware and software to enhance and augment the existing automated property information system. Two new system analyst positions, funded by PTAP monies, are being used to develop new automated programs for decline in value assessments, to enhance direct enrollment capabilities, and to automate portions of the assessment appeals process.

The assessor's automated homeowners' exemption administration program incorporates computer imaging into the tracking system of homeowners' exemptions. The bar coded, computer generated homeowners' exemption form is tracked by name, address, parcel number, document number, and filing date. When the homeowner returns the completed form, the application is scanned into the computer for signature and social security number. Currently, the system is not able to check for duplicate social security numbers. All necessary information regarding the exemption is stored on the computer so the original hardcopy documents can be stored offsite. Use of computer imaging has reduced an eight-person homeowners' exemption staff to one staff member and has eliminated the need for onsite storage of homeowners' exemption filings.

ASSESSMENT APPEALS

The assessment appeals function is required by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 of the Revenue and Taxation Code are the statutory references to guide county boards of supervisors in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326 (Sections 301

through 326 of Title 18, Public Revenue, California Code of Regulations)³ regarding assessment appeals.

The number of assessment appeals has steadily and dramatically increased with the California economic recession and the resulting decline in real estate values. Most of this increase in filings is based on section 51, which requires that real property--with a few exceptions--be annually assessed at the lower of its factored base year value or the current market value. An owner of property who is convinced that the current market value is less than the factored base year value is likely to request an assessment review. A review that does not satisfy the owner is likely to prompt a formal assessment appeal. For more information on section 51 assessments, refer to the "Declines in Value" section of this report.

San Bernardino County Ordinance 3264 established two assessment appeals boards, each with five appeals board members. There are also three hearing officers who hold hearings twice a week. Section 1637 specifies those situations where a hearing officer may hear an assessment appeal in lieu of the assessment appeals board.

Appeals board members are appointed by the county board of supervisors. Each of the five supervisors is allowed to appoint two appeals board members who have the background and qualification requirements outlined in section 1624. The appeals board members receive periodic training from the assessor's office and the BOE.

Applications for assessment appeals received by the clerk of the board are date and time stamped, numbered sequentially, and entered into the appeals board database. The computer assigns an appeals case number and generates a letter to the applicant that acknowledges receipt of the application and notifies the applicant of their case number. The application is reviewed by the clerk of the board for completeness, and a copy of the application is sent to the assessor's staff for review.

The appeals agenda is prepared by the clerk of the board after coordination with the assessor's staff. Generally, most cases are scheduled sequentially in the order that they were received. For appeals on special properties, the clerk will work with the appellant and the assessor's staff to ensure that the parties are available to attend the hearing. Once set, the appeals agenda is sent to the assessor. Rescheduling of hearings is at the discretion of the appeals board, who will allow one rescheduling for a legitimate reason.

In accordance with section 1605.6, appellants are notified of an appeals board hearing date by letter 45 days prior to the hearing. A letter confirming the results of the appeals hearing is sent to the appellant following the hearing. The assessor's staff is informed of appeal results by attending the hearings and tracking appeal results through the appeals board's shared database. When a

³ **Footnote:** All references to Property Tax Rules are from Title 18, Public Revenue, California Code of Regulations.

decision results in a value change, roll corrections are submitted immediately following the hearing.

In accordance with Property Tax Rule 312, all appeals board hearings are recorded. Transcripts or a computerized printout of the findings and conclusions are made available to the public upon request. A listing of appeals filings is also available to interested agencies and parties through a paid service.

Recent years have seen a steady increase in the number of assessment appeals, from 9,896 cases in the 1994-95 assessment year to approximately 12,000 cases in the 1997-98 assessment year.

While the processing of approximately 12,000 appeals annually is a daunting task, the clerk of the board has been able to accomplish this mission with a talented and dedicated staff and a cooperative working relationship with the assessor's staff. Additionally, a new clerical tech III position, made possible by PTAP funding, has enabled the clerk to keep pace with the increasing assessment appeals workload.

When the assessor's office receives its copy of the appeals application from the clerk of the board, information from the application is entered into the assessor's computer system. Once in the system, the cases can be tracked and assigned. Appeals on special properties are assigned to the appraiser specializing in that property type. But, most of the appeals are assigned to the two appraisers working in the appeals section, who with the assistance of the regional appraisers, prepare and present the majority of the assessment appeal cases.

Formal exchanges of information do not occur often. When an appellant requests a formal exchange, the assessor's staff sends the appellant a copy of the formal exchange requirements, which are numerous and specific. Informal exchanges are more common, where the assessor and appellant may share information to better understand the others' point of view. Many times cases are withdrawn once the two sides come to an understanding on an assessment.

Despite the tremendous workload, the assessor's appeals defenses appear to be well prepared, as evidenced by assessment appeals records, and are being completed within the two-year limit.

LOW-VALUE PROPERTY EXEMPTION

Section 155.20 authorizes the county board of supervisors to exempt real property with a base year value, and personal property with a full value, so low that, if not exempt, the total amount collected in taxes, special assessments, and any applicable subventions is less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceeds the funds collected, and establish the exemption level uniformly for different classes of property. The full value exempted may not

exceed the statutory limit of \$5,000. This limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned convention or cultural facility, as described in section 155.20 (b)(1).

RECOMMENDATION 1: Request that the board of supervisors revise the county's low-value property exemption resolution to conform to section 155.20.

In our prior survey, we recommended the assessor apply the low-value property exemption resolution uniformly to all eligible property on both the secured and unsecured rolls. During our current review, we found the low-value exemption is still being applied only to personal property (except manufactured homes) with a taxable value of \$2,000 or less.

Section 155.20 (b)(2) requires the exemption level be uniformly applied for different classes of property, regardless of the class of property. Examples of assessments that might qualify for low-value exemption include certain mining claims, possessory interests, and foreign improvements.

We recommend the assessor request that the board of supervisors revise the low-value property exemption resolution to apply to all eligible property. This will ensure that all classes of property are treated uniformly.

DISASTER RELIEF

Section 170 allows a county board of supervisors to adopt an ordinance that would provide property tax relief to assessees whose properties have been damaged or destroyed through no fault of their own. The ordinance is also applicable to a major misfortune and calamity within a region that has been declared a state of disaster by the governor, as well as any other misfortune or calamity. The ordinance may specify a period of time within which the ordinance shall be effective, or it may remain in effect until it is repealed.

To obtain relief under an ordinance of this type, assessees must make a written application to the assessor requesting reassessment within 60 days of the misfortune or calamity. However, if no application is made and if the assessor is aware of a property damaged by misfortune or calamity within the previous six months, the assessor must either provide the last known assessee with an application for reassessment or revalue the property with the approval of the board of supervisors.

To be eligible for disaster relief, the property must suffer a loss in value of at least \$5,000. The assessor must calculate the percentage of full cash value lost, and that percentage is applied to the values appearing on the assessment roll.

The assessee is liable for a prorated portion of the taxes that would have been due on the property had the misfortune or calamity not occurred, plus a proration of the tax due on that property as reassessed in its damaged condition. Any taxes paid in excess of the total tax due must be

refunded to the assessee as an erroneously collected tax without the necessity of a claim being filed by the assessee.

The San Bernardino County Government Code provides for disaster relief in sections 14.051 through 14.056 by Ordinance 2658, which was last amended in May of 1982. This procedure conforms to the requirements of section 170 except for one minor point. Section 170 has recently been revised to account for the new lien date of January 1. We found that the county ordinance has not been updated to reflect this change. We suggest the assessor request that the county board of supervisors make a revision to the ordinance to comply with the Revenue and Taxation Code.

In our last survey, we recommended that the assessor train personnel in the correct application of disaster relief procedures. Based on a review of a limited number of disaster relief applications, we found proper assessment procedures are now being followed when disaster relief is granted. We also commend the assessor for implementing our prior suggestion to revise the wording on the application for disaster relief so as to be in compliance with section 170.

We commend the assessor for his prompt and personal attention to disaster relief, particularly during the three recent major disasters occurring in September and October 1997. After notification of a major disaster by the county's emergency command post, an appraiser or supervisor responsible for that geographic area, and sometimes even the assessor, immediately visit the damaged locations. At that time, they may hand out the *Damaged Property Reassessment Application* form to taxpayers with property damage. Occasionally, the assessor also receives a list of damaged property from the city fire department. A letter is mailed to these property owners along with the damaged property application.

While doing a commendable job of notifying owners of damaged properties during the recent disasters, the following suggestions are made to further enhance the effectiveness of the overall program.

SUGGESTION 1: Revise disaster relief assessment practices by: (1) expanding methods of discovering disaster relief; and (2) establishing and maintaining a central file or listing of properties which apply for, receive, or are denied disaster relief.

Expand methods of discovering disaster relief

San Bernardino County processed only 15 claims for disaster relief for fiscal year 1996/1997. At the present time, the assessor's office relies on building permits and taxpayer reports as the primary means of discovering property that has lost value due to calamity or misfortune.

In the past, the assessor's office was receiving fire reports from local fire departments. However, some of the assessor's staff indicated that they have not received damage reports for damage not the result of a natural disaster for quite some time. Consequently, some disasters could go

undiscovered since many property owners are not aware of the disaster relief provisions and thus may fail to contact the assessor.

We suggest that the assessor's office contact all county and city fire departments and request periodically updated lists of fire reports. If the fire department is unable to produce this information, the following alternatives could be implemented:

- The assessor could develop a working relationship with fire department officials that would allow assessor's staff to visit the fire departments monthly to photocopy fire reports.
- The assessor could request that the fire department fax their fire reports directly to the assessor's office.

If implemented, these suggestions would greatly assist the assessor's staff in discovering property damaged by misfortune and calamity.

Establish and maintain a central file or listing of properties which apply for, receive, or are denied disaster relief

The appraisal staff does not maintain a comprehensive listing of properties for which a disaster relief application had been denied, nor are the property damage logs, located in each district office, updated regularly. These logs were meant to be updated as applications are sent to taxpayers requesting relief from damage. Currently, those applications sent to taxpayers based on fire incident reports or, those sent directly to taxpayers by appraisers, may or may not be entered in the log.

Once a completed disaster relief application is received from the property owner, the application is forwarded to the appraiser who has responsibility for the geographic area in which the property is located. The application is then either approved or denied by the appraiser or supervisor. If denied, the taxpayer is informed and the application attached to the appraisal record with no further action taken. If the application is approved, it is processed.

When the value is ultimately restored, all the disaster forms are attached to the appraisal record and the record is refiled in the general file by assessor's parcel number. The individual appraiser keeps track of the affected property until the process is complete and the value restored; no separate listing is ever created for management review or follow-up purposes. We reviewed only a limited number of disaster relief files because, lacking a centralized listing, they could not be easily identified.

We suggest the assessor establish and maintain a central listing for review and monitoring purposes to ensure that damaged properties are properly tracked and accurately assessed.

ASSESSMENT ROLL CHANGES

Pursuant to section 4831, roll changes can be made when an error or escaped assessment is discovered after the roll is closed. The change may be made any time after the roll is delivered to the auditor but shall be made, with a few exceptions, within four years, of the making of the assessment, which is being corrected.

The San Bernardino County Assessor's Office processed 48,466 roll changes for the 1996-97 roll year. Roll changes for real property originate with the appraisers who create the assessment change worksheet. After supervisor approval, the worksheet is routed to the three processing clerks in the main San Bernardino office. Worksheets are date stamped and the information is entered into the computer database, which produces taxpayer letters entitled *Notice of Assessment Roll Change*.

Prior to mailing out the letters, the clearing clerk is responsible for validating data on worksheets and letters such as assessee's name, address, assessor's parcel number, correction codes, and values. Roll changes are held for 15 days after data entry before they are forwarded via computer to the auditor-controller's office.

We reviewed a number of secured roll changes. All procedures and Revenue and Taxation Code citations appeared to be correct. Overall, the assessor's roll changes system appears very effective for making assessment roll changes and notifying taxpayers. We noted one problem with the notice of proposed escape assessments forms.

RECOMMENDATION 2: Cite the proper caption as required by section 531.8 when providing taxpayers with notices of proposed escape assessments.

The assessor's staff routinely mail out letters that are entitled *Notice of Assessment Roll Change* to taxpayers when there is a proposed escaped assessment, decrease in assessed value, or increase in assessed value. If a roll change is contemplated that would generate an escaped assessment, the letter sent to the taxpayer must prominently display the words *NOTICE OF PROPOSED ESCAPE ASSESSMENT*, as provided in section 531.8:

No escape assessment shall be levied under this article before 10 days after the assessor has mailed or otherwise delivered to the affected taxpayer a "Notice of Proposed Escape Assessment" with respect to one or more specified tax years. The notice shall prominently display on its face the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

We recommend that the assessor make this important change to their escape assessment letters in order to be in compliance with section 531.8.

SUPPLEMENTAL ROLL ASSESSMENTS

Chapter 498 of the Statutes of 1983 (Senate Bill 813), and other statutes relating to the supplemental roll, were enacted to provide additional funding for public schools and to promote equalization among taxpayers. These measures increase revenues by requiring that reassessment resulting from a change in ownership or completion of new construction shall go into effect as of the date of the change in ownership or completion of new construction instead of the ensuing lien date. The difference between the new value and currently-enrolled value is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.

Section 75.10 requires the assessor to appraise property whenever a qualifying change in ownership or completion of new construction occurs. In the San Bernardino County Assessor's Office, supplemental assessments are computer-generated once the appraisal staff has completed a value change due to a change in ownership or new construction. These supplemental assessments are forwarded to the county auditor-controller's office that cancels any resultant tax bill that is twenty dollars (\$20) or less per section 75.41 (d). We compliment the county assessor and his staff for implementing a program that is accurate, efficient, and in compliance with all applicable provisions of the Revenue and Taxation Code.

STANDARDS AND QUALITY CONTROL

A standards and quality control unit ensures the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Quality of appraisal output and adherence to standards is monitored through internal audits. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

In our prior survey, we noted a lack of standardization among the nine district offices. In our current review, we found that consistency among the offices has improved. For example, the mainframe computer program rewrite project will add additional features to improve standardization of appraisal procedures and valuation among the district offices.

The San Bernardino County Assessor had established an internal audit position to perform the functions of standards and quality control. In 1992, severe staffing reductions in the assessor's office forced this position to absorb appraisal responsibilities and abandon the primary functions of standards and quality control. We urge the assessor to restore the standards and quality control functions to ensure that further improvements in consistency are made.

Procedures Manuals

Procedures manuals provide policy guidelines, specific standards, and uniform procedures to assist the assessor's staff in the preparation of audit and appraisal reports, as well as other technical work products. Current manuals can help ensure that the work is consistent with

approved policies and practices. Separate operations manuals for each division provide special policies and procedures that relate to the specific program responsibilities of that particular division.

SUGGESTION 2: Update appraisal procedure manuals.

The business property division has a reasonably complete and updated audit and property statement processing procedures manual, but many of the real property appraisal procedures have not been updated since 1988. These manuals have not been revised to describe recent legislative changes, computer-assisted appraisal and audit programs, procedural changes in processing, and additional appraisal areas.

Listed below are several specific appraisal and assessment functions that need updated written procedures:

- *Declines in value:* Current procedures need to be updated to account for recent legislative changes which permit roll corrections for up to one year after the delivery of the roll if the purpose of the reduction is to reflect a decline in market value.
- *Timeshares:* Written procedures need to be developed which describe the existing appraisal process and enrollment of timeshares.
- *Business Property Statement Processing:* Written procedures need to be revised for processing incomplete business property statements that must be returned to the taxpayer.

We suggest that the real and business property division staff review and update their procedures manuals to reflect current laws, rules, practices, and procedures that impact the work of each division. Operations manuals that are current would provide the assessor's staff and each district office with written directives on the processes, procedures, and techniques that are necessary to perform their duties in an adequate manner, while promoting uniformity and standardization in valuation and assessment procedures. The manuals can also be used as training tools for new employees.

Documentation

SUGGESTION 3: Properly document appraisal records.

As computerized assessment systems take on a greater role in the assessor's office, the documentation on the paper appraisal records is often de-emphasized. In our review of the assessor's appraisal records, we found many instances where we were unable to determine how appraised values were derived.

In our review of agricultural parcels, we found the appraisal records lacked pertinent data, such as the size of the unit being appraised, source of water, type of irrigation system, soil classification, or topography, or they contained very little documented support for values. In the case of new construction, some records were unclear as to quality, square footage, and sources of unit costs.

In most decline in value cases, we were not able to find supporting notes identifying comparable sales or income data used to justify in values.

New construction should be fully documented on the appraisal record, including the sources of unit costs, square footage, building permit number, and quality of new construction (materials and workmanship). Agricultural appraisal records should be adequately documented with pertinent information. For those parcels experiencing a decline in value, documentation supporting reductions in value should be added to all records.

We suggest that the appraisal staff document on the appraisal record the basis for every value change. Implementing this suggestion will result in complete appraisal records and facilitate better responses to taxpayer inquiries and quality control reviews.

REAL PROPERTY VALUATION AND ASSESSMENT

THE APPRAISAL PROGRAM

INTRODUCTION

Under our present property tax system, county assessors' programs for assessing real property include the following elements:

1. Revaluation of properties that have changed ownership;
2. Valuation of new construction;
3. Annual revaluation of certain properties subject to special assessment procedures such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land; and
4. Annual review of properties having declining values ("Proposition 8" assessments authorized by Section 2(b) of article XIII A).

The statistics derived from the CPTD's assessment survey of the 1997-98 San Bernardino County local assessment roll indicates the overall quality of the roll for that year. CPTD's sampling of roll entries included 301 assessments of real property other than trade fixtures. Of these, 46 were appraised by CPTD staff at values different from the values determined by the assessor's appraisal staff (7 were underassessed and 39 were overassessed). These sample item differences, expanded by statistical measurement to represent all real property assessed on the local 1997-98 local roll, indicates underassessments of approximately \$192,874,699 and overassessments of approximately \$1,533,445,936.

CHANGE IN OWNERSHIP

Document Processing

The San Bernardino County Recorder's Office has recently gone from a microfilm data storage system to an electronic database of scanned documents. Documents are still microfilmed as a backup. As documents are received by the recorder's office, they are assigned a document number and coded by document type. Working together, staff in the offices of the assessor and recorder have determined the types of documents (deeds, affidavits of death, Preliminary Change of Ownership Reports) that typically affect property assessment. Of the approximately 450,000 documents recorded each year, about 25 percent are transmitted to the assessor's office.

The recorder's office transmits these documents via telephone line to the assessor's office. At the assessor's office, the documents are printed in hard copy form and delivered to the transfer

section for analysis. In the future, a compact disk or online system will allow staff to view scanned documents at their computer terminals.

The recorder's office requires that Preliminary Change in Ownership Reports (PCOR) be filed with all transfer documents. Although the recorder must accept all documents for recording, transfer documents submitted without a PCOR will result in a \$20 penalty. The corresponding document number is printed on the PCOR and the recorder's office requires that the assessor's parcel number (APN) be listed on all transfer documents. The PCOR's are forwarded to the assessor's office to be matched with the transmitted documents.

Technicians in the assessor's office review documents for ownership analysis. By examining the document and the related ownership statements, the technician will determine if a change in ownership has occurred, what parties are involved, and the percentage of ownership transferred. The technicians will look for potential exemptions and send out the appropriate application forms.

Where a PCOR has not been received, a Change in Ownership Statement (COS) is sent. For purchases of real property with taxable personal property, buyers are requested to attach a list of the personal property to their COS. If a response to the first request is not received, a second request for information is made. If there is not a timely response to the second request, penalties are applied as required by section 482.

Once the details of the change in ownership have been determined by a technician, a Master Appraisal Document (MAD) is prepared and forwarded to the appropriate district office for valuation.

Discovery of Long Term Leases and Unrecorded Transfers

The recorder sends copies of recorded long term leases to the chief appraiser, who will determine if the lease constitutes a change in ownership. Although a formal system for exchange of this type of information is not in place, other leases may be discovered by referral from the business property division. In prior years, the assessor's staff had some success in discovering lease information by canvassing landlords and sending out inquiries.

Information on other property transfers comes from various sources. The county recorder's office sends notification of deaths, such as recorded affidavits of the death of a joint tenant, to the assessor's transfer section for analysis, and has information sharing agreements with other county recorders and county clerks.

The assessor has supplied many local law offices, probate attorneys, and title companies with various change in ownership statements to encourage the communication of transfer information. In addition, a *Death of Real Property Owner Change of Ownership Statement* is sent as an inquiry anytime a death is suspected of affecting property ownership.

Direct Enrollment

The assessor has developed a direct enrollment program to expedite the assessment of many residential and vacant land transfers. The program uses comparative characteristics, entered in a computer program, to indicate a likely market value for a subject property based on properties with similar characteristics. The program uses a minimum of three characteristics and can accommodate a maximum of 25. The characteristics can be customized according to the needs of the district office. The direct enrollment system is also used as a tool for annual decline in value reviews. Generated sale prices can be compared to assessed values to screen for declines in value. For the 1997 roll year, 7,833 of the 68,121 transfers were enrolled through the direct enrollment program.

As transfers come into the transfer section, information on property characteristics and transfer information is inputted into the direct enrollment program. The system will lag the assessment for approximately 45 days to allow time for the COS to be returned with the reported sales information. The system will generate either a *Sales Verification* value when there is a verified sales price and it falls into the computer generated value range, or an *Estimated Market Value* when no sale price has been reported. The *Estimated Market Value* is a computer generated market value estimate.

The direct enrollment value is printed onto the Master Appraisal Document (MAD) and sent to the regional supervisors for review. The supervisors will manually check each value estimate for correctness. MADs, containing transfer information but lacking a computer generated value estimate, will be sent to appraisers for market analysis, as well as any directly enrolled value in need of further review.

Residential transfers not valued by direct enrollment are referred to the appraisers who use computer generated lists of transfers, called *stat runs*, to search for comparable sales. Comparables used, adjustments made, the value conclusion, and other relevant information is entered on the MAD. For commercial, industrial, and multi-unit residential properties, the MAD will reflect income information, but income data for comparables is stored in computer data banks. Field checks and cash equivalency adjustments are made based upon appraiser judgment.

Transfer List

Section 408.1 requires that the assessor maintain and make available for public inspection a list of property transfers over the most recent two-year period. The types of information that should be included in the list are specifically outlined. This section also requires that the list be open to public inspection and states that the assessor can charge a fee of up to ten dollars for making the list available.

RECOMMENDATION 3: Revise the fee for public inspection of the two-year transfer list to the amount provided by section 408.1.

The list of property transfers in San Bernardino County is available only on microfiche. During the time we performed our fieldwork, the assessor's office was charging the public twelve dollars for viewing the microfiche information.

Revenue and Taxation Code section 408.1 provides that the assessor may require payment of a nonrefundable fee that would reimburse local agencies for the actual administrative costs incurred or ten dollars, whichever is the lesser amount. We recommend the assessor determine the actual cost incurred and revise the fee from twelve dollars to the lower of the actual cost or ten dollars.

Legal Entity Ownership Program (LEOP)

Since 1983, BOE's Legal Entity Ownership Program (LEOP) has informed county assessors of changes in control of legal entities owning real property in California. The LEOP unit is part of the Policy, Planning, and Standards Division (PPSD) of the Property Taxes Department. The LEOP unit learns of these unrecorded changes in control, occurring through stock purchase or acquisition, from responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB). Typically, these types of changes in control are not recorded in the local county recorder's office and may go undiscovered by the county assessor's office.

The LEOP staff gathers this preliminary information from the FTB and sends the acquiring and acquired entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved. Responses are accumulated, sorted by county, and forwarded to the appropriate assessors' offices. This provides the assessor's staff important information on unrecorded transfers of real property that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly check parcels listed to determine with certainty which are subject to reappraisal.

An additional source for the discovery of changes in control is the *Business Property Statement* (BPS). This statement contains a question designed to discover changes in control of legal entities. As part of our review of the county's follow-up on changes in control reported by LEOP, we cross checked LEOP notifications with the annual property statement to determine if the taxpayer had noted a change in control on their BPS. We found the majority of the businesses undergoing a change in ownership did not mark the appropriate box on the BPS. However, we found the transfer section staff were aware of the LEOP notifications.

The assessor has designated a transfer specialist to handle changes in control of legal entities. This person researches the names on the LEOP list to determine if a revaluation of affected parcels has already been done or if a COS has been sent. If not, a *Transfer Information Sheet* (TIS) is prepared and sent to the appropriate district office for disposition and/or appraisal. The

supervising appraiser of the district office is then ultimately responsible for the completion of the assessment process.

In our prior survey, we recommended the assessor develop a system to monitor and control the LEOP notices. In our current review, we found that the county has not instituted the monitor and control system as recommended, but such a tracking system will be part of the new computer program tentatively planned for implementation in July 1999. For the present however, the transfer specialist appears to be doing an adequate job since all transfers we examined were correctly processed.

Holding Period

A discounted cash flow analysis (DCF) may be utilized as part of the income approach to value. This analysis consists of valuing a series of future annual income streams and the reversion value of the property at the end of the holding period. These annual income streams and reversion value are discounted to a present value estimate. The holding period should be based on the amount of time the buyer will own a property before selling it. The holding period used is based on sales or interviews with market participants.

SUGGESTION 4: Use a holding period that reflects market assumptions when valuing properties using a discounted cash flow analysis.

The county currently uses holding periods which appear to reflect the remaining physical life of the structures as used in the cost approach. The most typical holding periods are either the remaining economic life of the improvements or a market derived investment holding period. A longer holding period, such as that used by the county, and a stable reversionary value distorts the value indicator because sale proceeds of the property are worth less the longer the holding period, making the value of a property held for five years different than one held for 30 years.

When using discounted cash flow analysis, the appraisal staff should use a holding period that reflects market assumptions, not the remaining physical life of the improvements. Changes will need to be made to the DCF computer programs, and documentation and/or a narrative supporting the selected holding period assumption should be included in the appraisal file.

NEW CONSTRUCTION

California law requires that newly constructed real property be valued as of the date construction is complete. In San Bernardino County, the primary source for discovering new construction is building permits issued by various agencies within the county. Additionally, staff appraisers discover construction activity while they are canvassing their assigned areas. Or, occasionally, new construction information is supplied by a taxpayer on the BPS.

Building Permit Processing

There are 25 agencies that issue building permits in San Bernardino County. Each of the assessor's nine district offices has the responsibility for acquiring permits from each issuing

agency within their district. In 1996, the assessor's staff received 46,282 permits and valued 12,770 permits for the 1996/97 assessment year.

In each district office, the district clerk is responsible for obtaining permits from the issuing agency at least once a month and separating them into four categories based on the type of construction:

- Nonassessable permits or no value change;
- Low value permits (under \$50,000) residential properties only;
- All new construction (all commercial/industrial and residential over \$50,000);
- Permits for personal property, i.e. fixtures, signs, machinery and equipment.

After the permits are classified, they are prepared for data entry by determining pertinent information such as permit date, assessor's parcel number, issuing agency by code, district code, permit number, date of issue, permit status, permit value, and type (stamped "C/I" for commercial/industrial and "R" for residential). The permits are forwarded to the main office in the City of San Bernardino, referred to as District 12, for data entry.

After permits are keyed into the system, an office clerk will do the following:

- Send *Property Owner's Statement of New Construction* (POSNC) on low-value permits. When a POSNC is received from a property owner, the POSNC is matched with the permit and the package sent to the appropriate district office for appraisal;
- Send high value permits to district offices for review and valuation;
- Forward personal property permits to the business property division;
- Make available, upon request, a listing of permits by agency and date of issuance;
- Request the MAD for status of permits and tracking.

The number of POSNCs mailed to taxpayers during the 1996 calendar year totaled 7,463 with a response of 5,224, or a return rate of 70 percent.

The permit processing procedures used by the assessor's office appear to be effective and efficient means of tracking and identifying permits to be reviewed for assessment action. However, due to

appraisal staff reductions since 1992, a serious backlog has developed in the identification, tracking, and assessment of new construction. We found several instances in which completed new construction escaped assessment entirely, a probable result of this backlog. With the monies received from PTAP, significant staff resources were allocated to address the new construction backlog. Performance measures designated in the PTAP contract for valuing new construction were met as required under contract.

SUGGESTION 5: Initiate a program for spot-checking self-reported new construction.

In our prior survey, we suggested that the assessor make random field checks of individual properties involved in their self-reported new construction program. In his response to the survey findings, the assessor stated that he agreed with our suggestion. However, this suggestion was not implemented due to a lack of resources.

Although we found no evidence of erroneous assessments because of inaccurate reporting by property owners, our experience in other counties has indicated random audits are essential to ensure accurate reporting by taxpayers. We suggest that a fixed percentage of self-reported new construction returns should be audited to verify information received.

RECOMMENDATION 4: Revise new construction assessment procedures by: (1) insuring that an imputed interest charge for owner-supplied construction funds is included in the appraisal of large commercial and industrial properties valued by the replacement cost method; and (2) reviewing and updating replacement cost factors used to value new construction.

Include imputed interest on construction funds

When calculating a replacement cost estimate, the appraisal staff does not include construction loan interest incurred during new construction unless the loan interest was part of the cost reported to the assessor.

The cost of interest on money borrowed or committed during construction is a proper component to include in the cost approach to value and should be included whether funds are borrowed or owner-supplied. Large companies with sufficient funds may finance their own construction projects. In cases where funds are owner-supplied, the assessor must impute an interest charge and include it in the cost approach summation.

We recommend the assessor adopt procedures to ensure that interest costs on funds borrowed for construction are properly accounted for in the cost approach to value.

Update local replacement cost factors

The cost approach is a commonly applied approach in the appraisal of new construction. It is applicable to incremental valuation, and its simplicity makes it desirable when time and resources

are limited. In the San Bernardino County Assessor's Office, residential new construction is valued primarily by the cost approach using cost factors developed by the assessor's staff. Local cost guidelines developed by the assessor's staff were last updated in 1992. Locally developed costs are an excellent means of valuing new construction if the cost guidelines are kept current.

We recommend that the assessor's staff compare reported historical costs with the local cost guidelines to determine whether the cost estimates need to be adjusted to reflect local conditions.

Tenant Improvements

Tenant improvements (TI's), also called leasehold improvements, are structural or fixture improvements made to rented or leased premises, and installed and paid for by the tenant/lessee or landlord. Tenant improvements can also be the original installation of finished tenant space in a construction project, and they are often subject to periodic changes by succeeding tenants.

Improvements could be (1) structural improvements that require assessment; (2) structural improvements that are considered normal maintenance and do not qualify as new construction; (3) structural improvements that constitute a remodeling of existing improvements which do not require assessment; or (4) fixtures which should be classified, valued, and assessed as such.

A portion of the BPS, Schedule B, is designed for the reporting of costs expended by tenants for improvements (both structural and fixture) to rented premises (land and buildings) where they operate their business, trade, or profession. Frequently, it is difficult to determine from the BPS how to classify a reported structural improvement.

The assessment of tenant improvements typically requires coordination between the real property and business property divisions. When a taxpayer reports structural costs on Schedule B totaling over \$100,000, the business property division staff completes an "APP112" form and sends it to the real property division for identification and review prior to valuation and assessment. For reported structural improvement costs under \$100,000, the business property division staff typically assesses these costs directly to the tenant on the unsecured assessment roll.

Tenant improvements are valued using reported costs or costs from Marshall Valuation Service when reported costs are questionable or considered unreliable. All tenant improvements assessed to the tenant that remain after a tenant vacates become assessable to the real property owner.

We reviewed 14 BPS's with reported TI's. Our review concentrated on the following areas: (1) reported cost and description, (2) proper identification and classification of TI's by the business property staff, and (3) coordination between the business property and real property divisions for proper assessment. Based on our review, a problem with the identification and classification of TI's was identified.

RECOMMENDATION 5: Properly classify tenant improvements.

The business property division staff incorrectly value and classify unsecured tenant structural improvements as fixtures. On unsecured accounts (those with a reported cost of \$100,000), the reported structural costs are not referred to the real property division unless the taxpayer has signified in some manner that the costs pertain to a real property item. Unless so identified, the reported structural costs are not analyzed to determine whether the improvement is assessable new construction or a nonassessable repair or maintenance cost. The reported cost is valued as a fixture and classified on the unsecured assessment roll as a fixture. When the taxpayer has identified what the improvement costs pertain to, the costs are referred to the real property division for review and assessment.

The automatic classification of reported structural improvements as fixtures on the unsecured roll can lead to a number of inequities. Differing valuation procedures between secured and unsecured rolls can cause the following inconsistencies:

- Structures assessed on the secured roll are given a base year value and are increased yearly by the Consumer Price Index (CPI); structures assessed on the unsecured roll as fixtures have a factored base year value but are usually valued at current market value.
- Without a review into the nature of improvement costs, structures automatically assessed on the unsecured roll as fixtures may consist of items that reflect normal maintenance or remodeling which do not qualify as assessable new construction.

All reported structural improvements should be investigated. If they are found to be assessable structural improvements, a base year value should be determined, and they should be enrolled as real property improvements and subject to the annual CPI adjustment.

In order to ensure that all tenant improvements reported on the BPS are treated uniformly, we recommend that reported tenant improvements be thoroughly investigated and properly classified.

Construction In Progress

Section 71 reads in part:

“New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of the property which is newly constructed shall be reappraised at its full value.”

On each lien date, construction in progress (CIP) should be valued at fair market value and enrolled. On subsequent lien dates, if the construction is still incomplete, the CIP must again be appraised at fair market value. This process should continue until the new construction is complete, at which time the new construction is reappraised again at fair market value, and a

base year is assigned. The difference between the total market value of the newly constructed item and the lien date CIP value is enrolled as a supplemental assessment.

RECOMMENDATION 6: Revalue construction in progress on the lien date or completed new construction on the date of completion at market value.

In San Bernardino County, construction in progress (CIP) is valued and enrolled on the lien date. But in subsequent years, whether construction is still in progress or complete, the market value used to determine the initial CIP value is used for all interim CIP values as well as the completed new construction value.

For example, if a building is 50 percent complete as of the 1995 lien date, a market value for a completed building is determined and 50 percent of that value becomes the 1995 CIP value. But on the following lien date, when CIP is further along or now complete, the total property is not revalued using current costs. Instead, the initial 50 percent that was complete in 1995 is carried forward and the remaining 50 percent added to it. There is no revaluation of the total property at current market value.

We recommend that the assessor instruct his staff to revalue and enroll construction in progress on the lien date or completed construction on the date of completion at market value.

DECLINES IN VALUE

Section 51 requires the assessor to value taxable real property at the lesser of its base year value, adjusted annually for inflation, or the current market value, as defined in section 110.

Whenever a property's current market value declines, for any reason, below its factored base year value, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year level. Then the factored base year value resumes as the taxable value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

The economic recession and subsequent decline in real estate values in the early 1990's led to many assessor's offices being inundated with taxpayer requests for assessment reductions. However, in San Bernardino County extensive taxpayer requests for assessment reductions did not begin until 1994.

San Bernardino County consists of over 750,000 parcels. In 1994, 12,377 parcels were identified as having a current market value below the factored base year value. That number increased to a high of 116,826 in 1995. In 1997, 114,235 parcels were identified as declines in value. According

to members of the appraisal staff, residential property values have since leveled off and are starting to show some increase in value. Commercial and industrial properties for the most part appear to have stabilized but are not indicating any value increases at the present time.

We noted in our previous survey that well-defined written procedures guided the decline in value program. Since then, computer-assisted appraisal programs comparing current market values to factored base year values have been written for single and multiple family residential, hotels and motels, commercial, and industrial properties. These programs have enabled the appraisal staff to not only increase the quantity of decline in value reviews, but to also improve the quality of these appraisals.

RECOMMENDATION 7: Do not apply the inflation factor to decline in value enrollments.

The assessor's computer system automatically trends or applies the appropriate CPI factor to many types of real property assessments. Included in this automatic trending are existing decline in value assessments.

The appraisal records we reviewed showed that the initial declines in value were properly enrolled, but values in subsequent years were simply the original decline in value assessment trended by the CPI inflation factor. Although the appraisal staff may believe that automatically trending decline in value assessments approximates current market value, it is highly unlikely that automatic trending procedures accurately measure market value. Further, there is no legal authority to factor a market value assessment that has been enrolled to recognize a value decline.

In our sample of the 1997-98 assessment roll, numerous samples items reflected decline in value assessments that had been subsequently trended. Our market analysis of these parcels suggested that the market value had remained level or decreased while their assessment had increased due to automatic trending.

Section 51 requires the assessor to enroll the lesser of the factored base year value or the current market value. The computer program should be modified to exclude roll indexing on decline in value assessments. At the time of our fieldwork, the mainframe computer programs were being rewritten to eliminate indexing of decline in value parcels.

We recommend the assessor discontinue indexing decline in value enrollments. Until the modified computer programs are up and running, the assessor should develop an alternate procedure to ensure compliance with section 51.

SPECIAL PROPERTY TYPES AND PROCEDURES

HISTORICAL PROPERTY

Section 439.2 provides a specific procedure for the assessment of historical property. Its purpose is to encourage the renovations and maintenance of historical properties throughout California by providing a tax incentive for owners of historical properties. It is similar in this respect to the Williamson Act, which encourages the preservation of agricultural land in return for a property tax incentive.

Government Code section 50280 provides that an owner of a qualified historical property that is privately owned and not exempt from property taxation may enter into a contract with local governments. Section 50280.1 stipulates that in order for a property to be eligible for a such a contract, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of their factored base year value, current market value, or restricted value. Furthermore, when valuing enforceably restricted historic properties, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the income capitalization method. In this method, a fair or market rent less “ordinary and necessary” expenses is capitalized by a rate that is not derived from the market but is a sum of:

- An interest component that is determined by the State Board of Equalization;
- A risk component;
- A component for property taxes; and
- A component for amortization of the improvements.

San Bernardino County has 22 qualifying historical properties. We found that the assessor’s staff has adhered to all prescribed valuation procedures. In addition, the assessor has a computerized historical property income approach program. Implemented as a courtesy for interested taxpayers, the staff obtains market data from the taxpayer, estimates the property taxes as if the property was under contract, and compares the estimated taxes with current taxes to project the estimated tax savings.

We commend the assessor for implementing such a program. Not only does it provide a great service to taxpayers, but it assists staff in operating at maximum efficiency.

CALIFORNIA LAND CONSERVATION ACT PROPERTIES

An agricultural preserve contract is established between a landowner and the city or county, pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income, e.g., hunting, communication facilities, etc., and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 421 through 430.5 deal explicitly with the valuation of lands subject to agricultural preserve contracts.

For the 1997-98 lien date, San Bernardino County had 14,770 acres (864 parcels) encumbered by CLCA contracts. Approximately 2,897 acres, or 213 parcels, were in nonrenewal status. Nonrenewal status is when a government agency, or the owner of land subject to contract, has served a notice of withdrawal from the restricted contract. This removal takes nine years after notice is filed.

In San Bernardino County, restricted properties are not assessed at their factored base year value or current market value because restricted values have consistently been lower. For the 1996-97 assessment roll, the total restricted and nonrenewal values were \$172.5 million, less than three-tenths of 1 percent of the secured portion of the assessment roll.

The assessor's office has nine district offices including the main office in the City of San Bernardino. Five of these district offices handle the assessment of parcels restricted under CLCA contracts. Appraisal staff in the main district office utilize agricultural production and income data from the County Agricultural Commissioner's Annual Crop and Livestock Report as the primary source for determining the income to be capitalized into a restricted value for orchards, vineyards, and irrigated cropland. This report is a good source of information for countywide average production for a particular crop.

Once the various crop information is assembled from this report, the current income data and the previous three years income data are averaged. The orchard, vineyard, and irrigated cropland incomes are then capitalized into per acre values using the CLCA capitalization rate. These values are forwarded to each district office that have properties restricted under contract for use in the CLCA computerized program.

SUGGESTION 6: Revise the CLCA program by designing a questionnaire for obtaining production, income, and expense information on orchards, vineyards, and irrigated croplands.

In the early 1990's, the assessor stopped mailing lease questionnaires to taxpayers owning properties under a CLCA contract. The questionnaire was designed primarily for commercial and industrial properties and requested very limited information on agricultural uses.

We suggest the appraisal staff design a questionnaire for the purpose of obtaining information on production, expenses, and income from orchards, vineyards, and irrigated croplands. This form should also request information on income received from compatible uses, such as communication facility sites and recreational uses. The questionnaire should be mailed to all landowners in the county with an agricultural use code, regardless of whether or not their lands are under CLCA, so as to obtain a broader range of production, expense, and income data. Copies of the returned questionnaires should be forwarded to appraisers in the various district offices who are responsible for appraising CLCA properties.

The appraisal staff has not field reviewed CLCA properties in a number of years. This questionnaire could serve as an impetus for field review and confirmation of the reported actual production, income, expenses, and the remaining economic lives on living improvements (trees and vines), compatible uses, and improvements related to the parcels in question.

RECOMMENDATION 8: Revise the CLCA program by: (1) valuing individual properties based on their production capability; and (2) using an appropriate income premise when appraising producing orchards and vineyards in transition from agricultural to urban use.

Value properties based on their production capability

The county's method of estimating economic or market derived income to determine CLCA values on orchards, vineyards, and irrigated cropland is based on the county average production and commodity prices for the individual crops reported in the agricultural commissioner's annual report. While this report is a good source of information on countywide average production, it does not report actual production on individual properties. Production on poorly producing citrus groves is averaged with high producing, well-maintained groves.

Once the value guidelines to be used are determined, they are forwarded to the appraisers in those district offices responsible for CLCA assessments. The appraisers inform the principal property appraiser responsible for these value guidelines of any needed adjustments. We asked CLCA appraisal staff how often original CLCA values on the guideline sheet were changed. They indicated that very few of these value guidelines are changed. Typically if a value warrants change, it has been brought to the appraiser's attention by a taxpayer.

This method of using county averages for per acre values does not recognize the actual productivity of individual parcels. Properties producing below the county average will be overvalued, whereas properties producing above average are undervalued.

We strongly recommend the assessor value individual properties based on their production capability and not on countywide averages.

Use an appropriate income premise when appraising orchards and vineyards in transition from agricultural to urban use

Our previous survey noted that CLCA restricted orchards and vineyards in San Bernardino were being valued according to the straight-line decline premise. This method assumes that the net income declines in equal amounts each year during the orchard's or vineyard's productive life. We suggested the assessor value trees and vines based on the actual shape of their income streams. Typically, the income stream for trees and vines is a three-part curve reflecting inclining production in early years, level production at maturity, then a short period of declining production. This method is discussed in Assessors' Handbook Section 521 (AH 521), Part II *Assessment of Open-Space Property* (September 1997 edition).

Most of the orchards and vineyards in San Bernardino County are mature and in a transitional period going from agricultural use to urban use. Citrus groves we observed east of Redlands, between Interstate 10 and Highway 38, are good, well maintained groves. Many of them are capable of producing at level production for many years. However, most of these groves will probably be removed before their production declines. Therefore, we recommend the appraisal staff use a more appropriate income premise when estimating the restricted tree and vine values for these transitional properties.

Some citrus groves north of Highway 38 are not well maintained and appear to be in their declining period. The declining income premise is the proper method to estimate CLCA values on trees or vines in their declining production years.

RECOMMENDATION 9: Deduct charges for: (1) return on and of investment in nonliving improvements; and (2) recapture of irrigation wells from the gross income being capitalized.

Nonliving Improvements

In our review of CLCA appraisal files and discussions with the appraisal staff, we found that a charge is not being deducted from income for return on and of the investment in irrigation systems, wind machines, and vineyard stakes and trellises. For irrigated cropland, the restricted value is determined by applying the appropriate CLCA capitalization rate to the gross income. On citrus, the only expense deducted from the gross income is \$500/acre harvest cost. A 10 percent share of the remaining income is the amount used as gross income to the lessor. Expenses are not being deducted from the income of apple orchards, avocado groves, or vineyards. A percentage share is applied to the remaining income which is then capitalized into the restricted value.

The income on irrigated cropland, orchards, and vineyards includes income attributed to nonliving improvements such as fixed pumps, permanently-installed pipelines, micro sprinkler irrigation systems, wind machines, and vineyard stakes and trellises. In accordance with Property Tax Rule 124 (b), these should be assessed as improvements. Consequently, if an amount for interest on

and of the investment in these nonliving improvements is not deducted from income, a double assessment occurs.

Recapture of Irrigation Wells

Another expense not accounted for is a charge for recapture of wells that contribute to the earning ability of the land. Wells may be the sole source of water supply or used as supplemental water in an irrigation district. They are classified as land for property tax purposes and return on investment is included in the land capitalization rate.

Wells are a wasting asset and a charge for recapture must be subtracted from the income stream. We recommend using the replacement cost new (RCN) of the well when deriving a charge for recapture, i.e., if the cost of the well on 300 acres is \$60,000 and the estimated life is 25 years, the charge would be \$8.00 per acre ($\$60,000 \times 4.0\% / 300 \text{ acres}$).

Appraisers should be aware that service lives on irrigation wells vary greatly. There are areas where wells produce efficiently for 50 years, while in other locations wells will require replacement in 10 to 12 years.

We recommend the appraisal staff revise the CLCA computer program so that proper charges for return on and of investment in nonliving improvements and recapture of irrigation wells is included.

RECOMMENDATION 10: Revise desert grazing land valuation procedures by: (1) using current market rents in determining animal unit month (AUM) rents; and (2) calculating rent per acre as outlined in Assessors' Handbook Section 521 (AH 521), Appraisal of Agricultural and Open Space Properties.

Use current market rents in determining animal unit month (AUM) rents

Rural appraisal staff use an animal unit month (AUM) rent based on the contract rate charged by the Bureau of Land Management (BLM). These BLM rates are not market-derived and are typically below the market rental rate.

We recommend the appraisal staff use current market rents when determining AUM rents. Rental data on comparable fee owned properties should be compiled from local sources, other California counties, and counties in other states with similar type properties.

Calculate rent per acre as outlined in Assessors' Handbook Section 521

The appraisal staff utilizes a mathematical procedure for converting animal unit month rent to rent per acre that overstates the carrying capacity of the grazing land. Their mathematical procedure is inconsistent with the procedure outlined in AH 521, Part I (September 1997

edition). The handbook defines the use of animal units when appraising grazing lands and describes the appropriate mathematical procedure.

We recommend the appraisal staff revise the mathematical procedures used to convert animal unit month rent to per acre rent as described in AH 521.

Rural Property

Prime agricultural properties in San Bernardino County, not restricted under CLCA, are rapidly being converted to urban use. According to the County Agricultural Commissioner's 1996 Annual Crop and Livestock Report, there were less than 73,000 acres of orchards, vineyards, and irrigated croplands in San Bernardino County.

RECOMMENDATION 11: Identify, classify, and assess permanent irrigation systems and new wells according to the provisions of Rule 124.

Most of the citrus groves we observed in the Redlands area north of Interstate 10 were irrigated with permanently installed micro sprinkler irrigation systems. None of the rural appraisal files we reviewed listed these micro sprinklers or any other type of irrigation system other than an occasional pump. Staff from both the real property and business property sections were unclear as to who had the responsibility for assessing these permanent irrigation systems. Consequently, many of these systems have been either misclassified or unassessed.

Property Tax Rules 121 through 124 contain the criteria for classification of land, improvements, fixtures, and personal property. These rules provide some examples of items appropriately classified as land or improvements. For example, wells (hole, casing, and gravel pack) are classified as land, and pumps (fixed), motors, underground distribution systems, and concrete lined ditches should be classified as improvements.

Wells being drilled in San Bernardino County for agricultural uses are in most cases replacing an existing well or used for supplementing water from an inadequate well. The assessor considers new wells that replace existing wells to be maintenance and replacement and not assessable new construction.

For property tax purposes, new wells are classified and assessed as new construction. The full value of the new well should be determined using the historical or replacement cost approach. If an old well is abandoned, the factored base year value of that well should be subtracted from the assessment.

We recommend the assessor direct his appraisal staff to locate, classify, and assess all irrigation systems and wells according to regulatory provisions.

GOVERNMENT-OWNED PROPERTIES

Taxable Government-Owned Properties

The Constitution of the State of California exempts from taxation property owned by local governments. Article XIII, section 11 provides an exception for the taxation of properties owned by government agencies but located outside their boundaries when the property was taxable at the time of its acquisition. Such properties are commonly referred to as section 11 properties.

Government-owned land located outside of an agency's boundaries must be valued at the lowest of (1) the 1967 assessed value multiplied by the factor annually supplied by the Board of Equalization (Phillips factor), (2) an assessment based on current fair market value, or (3) the factored base year value. Existing improvements that were taxable when acquired by the government agency are assessable at the lesser of their current market value or their full cash value as defined by article XIII A of the California Constitution. New construction, with the exception of new improvements that replace previously taxable improvements, is exempt. Replacement improvements must be taxed at the lowest of (1) current market value, (2) full cash value as defined by article XIII A, or (3) the highest value ever used for taxation for the replaced improvements.

The assessor's appraisal staff has implemented several improvements to the section 11 assessment program since our last survey. Section 11 properties are now being tracked by the computer and information stored on disks. Approximately one thousand section 11 properties are currently in the computer system. The computer screen displays the APN, the 1967 land assessment, any 1967 improvement assessment, and the Phillips factor for the current year. The computer automatically factors the 1967 base value by the announced Phillips factor to arrive at the Phillips factored value.

Paper records, Master Appraisal Documents (MADs), are also being kept for section 11 properties. These documents indicate APN, some property characteristics, the 1967 base value, and can be used to calculate the Phillips factored value manually if needed. MADs for section 11 properties are filed next to the office of the appraiser in charge of section 11 properties rather than in the main file room.

In accordance with LTA 95/48, section 11 properties are valued at the lowest of the factored base year value, market value, or Phillips factored value. The assessor's staff have found that for most property purchased prior to 1975, the factored base year value is usually the lowest value, as compared to the market value or Phillips factored value. The assessor's staff has similarly found that when the market value or purchase price of more recently acquired property is compared to the Phillips factored value, the Phillips factored value is usually lower. The market value is seldom lower than the Phillips factored value or factored base year value for most of the county's section 11 properties.

The assessor's computer system will calculate values for pre-1975 purchased property based on their factored base year value and for the remaining enrolled section 11 properties on their 1967

value factored by the Phillips factor. Government-owned properties are valued at market value when the assessor's staff becomes aware that the market value has fallen below the other values.

POSSESSORY INTERESTS

A taxable possessory interest (PI) is established when a private right to exclusive use and possession is created in nontaxable government-owned real property. The provisions of section 107 identify what constitutes a taxable possessory interest. Reappraisable events in the valuation of possessory interests include: the creation of a possessory interest, renewal or renegotiation of the lease, and construction of new improvements subject to the lease agreement.

The components necessary for an effective possessory interest assessment program are the ability to identify government agencies participating in possessory interests, the holders of the possessory interest, terms of possession, appropriate capitalization rates, and economic rents.

The assessor has assigned one appraiser to coordinate the possessory interest assessment program. The appraiser tracks tax exempt government owners and maintains a list of about two hundred government agencies known to have possessory interest tenants.

In the past, a list of government agencies was obtained from the State Lands Commission. Now that this list is no longer available, the appraiser develops his own list by canvassing state and federal government phone books, communicating with government agencies, and receiving referrals from staff appraisers who have made discoveries in the field. The list is updated about every three years.

The possessory interest coordinator has found that approximately 10 to 12 agencies, including several Federal and State agencies, do not respond to assessor's inquiries. The assessor's office has little leverage to force any agency to comply. In some cases, agencies often cite confidentiality regulations as a reason not to provide information.

On or about the lien date, questionnaires are sent to the government agencies. Prior to 1998, the appraisal staff used an internally developed questionnaire that requested most of the pertinent data in an abbreviated format. Usually, the questionnaire was used to make initial contact with the agencies, and subsequent telephone conversations confirmed specific details. Beginning in 1998, the appraisal staff will use the BOE approved BOE-502P form to request the necessary information from the agency.

If a response is not received within 45 days, a second request is mailed, which usually results in a good response. If there is no response to the second letter, the coordinating appraiser will attempt to contact the agencies by telephone.

Possessory interest appraisals are assigned geographically. At the district offices, the appraisers assigned to possessory interests receive the questionnaire responses and copies of lease information.

At the Ontario regional office, the possessory interest appraisers use a computer program to track and value possessory interests. At the other regional offices, possessory interests are valued by hand and calculations are shown on the building records.

We found that the possessory interest coordinator's aggressive discovery program is effective in identifying possessory interests. We also found that possessory interests are being properly reviewed and valued.

MANUFACTURED HOMES

A manufactured home becomes subject to local property taxation when first sold new on or after July 1, 1980 or by owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are contained in sections 5800 through 5842 of the Revenue and Taxation Code.

There are approximately 13,496 manufactured homes in San Bernardino County. Most are located in rental parks and are not permanently affixed to the land. The assessor's primary method of discovery for taxation of manufactured homes is through the Department of Housing and Community Development's (HCD) listing of sales reported by dealers.

Manufactured homes acquired new are usually valued at their sales prices. For all other manufactured homes, section 5803(b) states that the assessor shall take into consideration prices listed in published guides. The assessor's staff is currently using the National Automobile Dealer's Association (NADA) value guide for their assessment of manufactured homes. We reviewed several appraisals of manufactured homes in rental parks and noted that the NADA guide was properly used.

Section 5801 (b) (2), provides that a manufactured home "...shall not be classified as real property for property taxation purposes..." Manufactured homes should be classified as personal property but otherwise are treated, in most respects, under the same standards as real property subject to article XIII A.

RECOMMENDATION 12: Classify and enroll manufactured homes, except those on approved permanent foundations, as personal property.

The assessor currently enrolls all manufactured homes as real property improvements. We were told that this is done because the county's computer system cannot apply the homeowners' exemption to personal property. Nevertheless, this classification is contrary to explicit statutory

requirements. Section 5801(b) specifically requires the classification of manufactured homes, other than those placed on a permanent foundation, as personal property.

Improper classification can also affect the amount of property tax levied because certain special assessments are not levied on personal property. The county assessor is able to circumvent this potential problem by using a different property type code to distinguish personal property from real property. This identification code is the tenth digit of the assessor's parcel number (APN).

We recommend the assessor to properly classify manufactured homes as personal property on the assessment roll to comply with the provisions of section 5801(b).

SUGGESTION 7: Make annual reviews of manufactured home values to compare factored base year values and current market values.

The assessor's staff values manufactured homes when there is a change in ownership or new construction. Once the base year value is enrolled, the value remains constant from year to year. The annual consumer price index trending factor is not applied to manufactured home values in an effort to recognize that manufactured homes typically depreciate in value. Even though manufactured homes generally experience declines in value with time, the appraisal staff reappraises them only upon new construction or change in ownership. There is no annual or periodic review of manufactured home values.

The appraisal staff should monitor manufactured home declines in value. Manufactured homes of an certain age and type can be expected to experience value declines to a greater extent than conventional housing, and the assessor's staff should be making periodic studies, if not annual reviews, in order to compare the current market value with the base year values so that the lower of the two can be entered on the assessment roll.

We recommend that the staff develop a program to collect the necessary sales information for annual reviews of manufactured home values and enroll the lower of factored base year value or current market value.

WATER COMPANY PROPERTY

Water companies assessed on local assessment rolls may be municipal systems on taxable government-owned land (article XIII A, section 11 of the Constitution), private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by CPUC, or mutual water company associations. Each type presents different appraisal problems.

Municipal Water Companies

The Constitution of the State of California exempts from taxation property owned by a local government (article XIII A, section 3 (b)). This includes property owned by city water departments or water districts and located within city limits or district boundaries. When the

water system property is located outside of the government's boundaries, however, article XIII, section 11 applies. Publicly owned water system property located outside the city limits or district boundaries is taxable if the property was taxable at the time it was acquired by the city or district. We discuss the assessment of taxable municipal water companies located outside their boundaries in this report under Government-Owned Property.

Private water companies regulated by California Public Utilities Commission (CPUC).

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' outstanding investments. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date. The property appraiser specialist responsible for the valuation of water company properties in San Bernardino County annually reappraises these water company properties to determine the appropriate taxable value to enroll.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. The association, when incorporated, can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of its members. Corporations organized for mutual purposes are not subject to regulation by CPUC unless they deliver water for compensation to persons other than stockholders or members. The property appraiser specialist is following BOE guidelines for assessing mutual water companies (no double assessments were found when shares were appurtenant to the land).

TIMESHARES

Timesharing is a system of sharing ownership in a vacation home, condominium, campground, etc. in which each of the owners may occupy the unit for a specified time of year and duration. San Bernardino County has approximately 11,365 timeshares, many of which are located in the mountain communities.

When a timeshare is purchased, the sale price typically includes nonassessable items, such as personal property (furniture, linen, kitchenware, and household items), vacation exchange rights, club memberships, and prepaid expenses such as maintenance fees for the upcoming year. These items are nontaxable and should not be considered in the valuation process.

A major factor to be considered in the valuation of a timeshare is the season or specified week purchased. In the mountain communities of San Bernardino County, there are basically two seasons (high and low) and holidays. Sale prices of these timeshares can vary dramatically from season to season. It is important to confirm that all comparable sales are for the same season as the subject property.

All timeshare assessments are processed by the timeshare clerk in the City of San Bernardino District Office.

As discussed in the standards and quality control section of this report, the assessor's office does not have updated, written procedures. We found that although the processing and enrollment of timeshare assessments is well-organized and efficient, there are no written procedures to ensure consistency and standardization among the district offices.

RECOMMENDATION 13: Review all timeshare assessments.

The timeshare appraisal records we reviewed lacked documentation supporting the enrolled value. The three district offices involved with timeshare valuations, Victorville, Twin Peaks, and Lake Arrowhead, utilize sales lists produced from PCORs and sales data obtained from developers and/or management companies. These sales lists contain raw sales data that include the APN number, sale date, transaction type, and sale price.

Sales data is not organized by season or floor plan. The MAD lacked a property description, and there was no evidence of adjustments for nonassessable items.

Timeshare values are reviewed only at the request of the timeshare developer or individual property owner. Because of the sluggish timeshare resale market in recent years, timeshare values have declined. However, the appraisal staff has not done a systematic decline in value review.

We recommend the appraisal staff review all timeshare assessments to ensure that nonassessable items are not being assessed and declines in value are recognized.

MINING PROPERTIES

San Bernardino County has the most diverse mineral properties in California. The assessor's office is fortunate to have a staff appraiser with over 20 years of experience responsible for the mineral appraisals. The documentation in the appraisal files is exceptional and includes copies of the county's Mine Site Approval and Reclamation Plan Notices. The parameter development for income appraisals is also well documented. All indications are that the county's appraiser is properly applying Property Tax Rule 469 to the mineral properties and is following the guidelines of Assessors' Handbook 560 (AH 560), *Assessment of Mining Properties*.

Our prior survey recommended several changes to the mineral appraisal program which have since been implemented. These recommendations included revising the working capital calculations, using mid-year discount factors, and obtaining a personal computer for the mineral appraiser's use in the appraisal process. We make the following recommendation to enhance this already well-managed mineral appraisal program.

RECOMMENDATION 14: Appraise mineral properties as a unit.

On properties valued using the royalty method, the county's appraiser is performing the decline in value test separately for the mineral rights and the other property associated with the mine. The result is that the minerals are being assessed at their factored base year value and the other property is assessed at current market value. We found one property that was underassessed due to this practice.

This procedure is contrary to Property Tax Rule 469(e)(C) which states, "declines in the value of the mineral property shall be recognized when the market value of the appraisal unit, (i.e., land, improvements including fixtures, and reserves), is less than the current adjusted base year value of the same unit." The property should be assessed as one appraisal unit (except that as a result of legislation enacted in 1998, leach pads, tailings facilities, and settling ponds are separate appraisal units for purposes of measuring declines in value). The adjusted base year value should be calculated along with the current fair market. The lesser of these two values should be enrolled as the assessment.

Assessors' Handbook Section 501 (AH 501), *Basic Appraisal*, states that the appraisal unit should be what people in the market typically buy and sell. While it is possible that the various components of a quarry operation will sell separately, standard practice prescribes the appraisal of the quarry as a unit with value then allocated to the assets (except that leach pads, tailings facilities, and settling ponds must be valued as separate appraisal units for the 1999 and subsequent assessment years).

The problem is aggravated by the lack of cooperation by the taxpayer in reporting reserves on the annual property statement. The appraiser should ensure that annual property statements are completed with all necessary information, including reserve estimates. Those statements that are found to be in error or incomplete should be returned to the taxpayer with a letter stating the reason the form was returned and informing the taxpayer that failure to return the completed form by the due date will result in a penalty assessment.

We recommend the mineral appraiser value the mineral property as a unit when using the royalty method. If the taxpayer fails to provide the necessary reserve estimates on the annual property statement, the appraiser should use the statutory remedies available to promote taxpayer compliance.

BUSINESS AND PERSONAL PROPERTY VALUATION AND ASSESSMENT

INTRODUCTION

The business property division is responsible for annually processing more than 34,300 business property statements, 10,300 leasing company statements, and 500 agricultural statements. They also handle the assessments for more than 20,250 boats and over 2,000 aircraft. The current staff includes two supervising auditor-appraisers, four and one-half auditor-appraisers, four auditor-appraiser trainees, four clerks, and four technicians. All business property division files and employees are located at the assessor's main office in the City of San Bernardino.

Since our last survey, the business property division experienced a significant decrease in staffing. In 1992, budgetary constraints reduced the business division audit staff from 18 auditor-appraisers to only four and one half auditor-appraisers. Two auditor-appraisers were hired in January 1996 with PTAP monies, and four more in 1997 (two have subsequently left). Also in 1997, 12 to 14 temporary workers were hired to do a countywide field canvas for discovery and update of business records.

Funding from PTAP has provided nine personal computers and upgraded software for the business property division staff. This additional equipment, coupled with in-house audit programs and other enhancements resulting from the database rewrite project, should provide both the valuation and audit staff the means to maximize productivity and efficiency.

AUDIT PROGRAM

Section 469 and Rule 192 provide that the assessor shall audit a taxpayer's profession, trade, or business once every four years whenever the locally assessable trade fixtures and business tangible personal property have a full value of three hundred thousand dollars (\$300,000) or more for four consecutive years. These are known as mandatory audits. When the audits are not completed timely, any assessment changes beyond the four year span will be lost unless a waiver of the statute of limitations has been signed by the taxpayer or his/her legal agent. This provision is made in section 532.1.

RECOMMENDATION 15: Bring the mandatory audit program to current status.

At the time of our prior survey, the business property division was meeting the mandatory audit requirements of section 469 in a timely manner. The county currently has approximately 2,350 mandatory audit accounts, or approximately 590 audits per year. Previously mentioned staff cutbacks, coupled with an increasing number of mandatory audits, has now resulted in a serious backlog in the mandatory audit program.

The additional staff added in 1996 and 1997 has improved the overall audit production. Audit production in 1995 was 230 audits, and in 1996 audit production rose to 375. The audit production per auditor-appraiser is expected to reach 50 audits per year within the next year. With one auditor-appraiser assigned to handle appeals, 9.5 auditor-appraisers are left to complete the mandatory audit requirements. At full working capacity, the 9.5 auditor-appraisers doing an average of 50 audits per year would produce 475 mandatory audits. This is still 115 audits short of meeting the current year mandatory audit requirement, much less catching up on the audit backlog.

In order to expedite the audit process, the audit staff requested certain taxpayers to mail copies of pertinent records to the office. At the time of our fieldwork, the audit staff had received taxpayer records on about 200 accounts, each of which require a desk audit for prior audit years. Completion of these backlogged audits can only be done at the expense of current audit production. Obviously, the business property division needs more auditor-appraiser positions if it is to meet the current mandatory audit requirements and complete the backlogged audits.

While we commend the audit staff for remarkable audit production and audit quality given the resources available, we strongly recommend that the assessor bring the mandatory audit program up to current status.

Waivers

Section 532 requires that an escape assessment found by an audit must be made within four years after July 1 of the assessment year during which the property escaped assessment or was underassessed. If the assessor cannot complete a mandatory audit (or any other audit) within the prescribed time limit, he or she may request from the taxpayer an extension of time to complete the audit. This can be accomplished by having the taxpayer sign a waiver to extend the statute of limitations, as authorized by section 532.1.

The supervising auditor-appraiser who supervises the audit section makes every attempt to obtain waivers from taxpayers for those audits years that are about to be lost due to the statute of limitations. Because of the limited audit staff available from 1992 through 1996, the backlog of uncompleted audits was overwhelming. In obtaining waivers for audit years which still might not be audited, the audit supervisor became aware of two things:

- Even though a waiver was obtained, the audit still had not been done by the end of the next audit year so another waiver had to be obtained. Taxpayers were increasingly reluctant to sign waivers for multiple years.
- Most large corporate firms store records older than four years at offsite storage locations, resulting in access problems and delays when doing audits. Even though waivers may have been obtained, oftentimes historical records for older audit years were unavailable at the time of the audit. Consequently, audit years were lost even though waivers had been obtained.

To circumvent these problems, the audit supervisor developed a desk review procedure for those audit years in danger of being lost. The audit staff analyzed the business property statements and prior audits, concentrating on previously identified problem areas and other taxpayer reporting errors. In over 50 percent of these desk audits, the audit staff made escape assessments. Given the opportunity to oppose these escaped assessments, very few taxpayers challenged the assessment. One staff auditor-appraiser assessed more than \$1,000,000 in one year from these desk reviews. We commend the audit supervisor for a creative idea that helped mitigate the loss in revenue when mandatory audits were not done on a timely basis.

Computerized mandatory audit listing

SUGGESTION 8: Ensure that all mandatory audits are computer-identified.

The business property division annually receives a computer listing of all business assessments, both secured and unsecured, meeting the mandatory audit requirements of section 469. The list does not accumulate and total all individual or separate business locations that are owned by the same taxpayer. Most multiple location assessments must be manually identified and then manually added to the mandatory audit list. Having to update the list in this tedious manner undermines the purpose of having a computer-generated listing. This inefficient practice can also result in mandatory audit accounts going unidentified and thus unaudited.

As noted earlier, the existing assessment data processing computer program is in the process of being updated and rewritten. We suggest that computer identification of all mandatory audits, on both the secured and unsecured rolls, be included in the proposed enhancements of the rewrite project.

Method of calculating interest on escaped assessments

In our last survey, we recommended the assessor ask the county auditor to revise the method of calculating interest on escaped assessments. We recommended that the assessor indicate to the auditor that interest should be calculated up to the date the assessor's data entry staff actually inputs the assessment data into the roll change process. In our current review of the process of calculating interest on escaped assessments, we found that this recommendation has been implemented. Interest is now being charged up to the date the escape assessment is submitted to the roll change process.

PROPERTY STATEMENTS

Section 441 requires that every person owning taxable personal property having an aggregate cost of \$100,000 or more for any assessment year shall file a signed Business Property Statement (BPS), Form 571, with the assessor. Every person owning personal property which does not require the filing of a BPS must, upon request of the assessor, file a signed BPS. When the taxpayer fails to file the statement, section 501 gives the assessor the authority to make an assessment based on estimated value. Additionally, section 463 provides that "a penalty of 10 percent of the assessed value of the unreported taxable tangible property of such person placed on the current roll shall be added to the assessment made on the current roll."

The business property division does not routinely send an annual BPS to business accounts with taxable values less than \$100,000, but they do send an annual questionnaire to those taxpayers with taxable personal property below the \$100,000 level. When the questionnaire is returned, if the taxpayer indicates changes since the prior year in situs, ownership, and additions and/or deletions of taxable personal property, a BPS is then mailed to the taxpayer.

Discovery of business property

Timely discovery of taxable property is one of the basic functions of any county assessor. It is a never ending process made difficult by the rapid turnover of many small businesses, changes in ownership, situs changes, etc. It is a formidable task to maintain current listings of assessable business properties. It is imperative that an efficient and effective discovery program be in place. Common methods of discovery are field canvassing, landlord listings of tenants and subtenants, telephone directories, business licenses, newspapers, referrals from other counties, sales tax permit cards, and the use of the BPS itself.

Because of the lack of adequate staffing in the business division since 1992, field canvassing was not done for several years. In 1997, monies from PTAP were used to hire appraisal technicians to do field canvassing. These technicians were not BOE-certified appraisers, so their primary responsibility was to locate new businesses, establish situs, determine ownership of the businesses, and note whether the business had added or disposed of any equipment since the last field survey. A BPS was mailed to every new taxpayer and to any others that had changes to be made as the result of the field canvass. When a taxpayer responded by mailing in the completed BPS, it was processed in the normal manner.

This discovery technique made maximum use of PTAP monies with a minimum use of auditor-appraiser time. As funding becomes available to hire personnel, field canvassing should continue to be an important discovery tool. We strongly urge the assessor to allocate sufficient resources to maintain this portion of the discovery process.

Low-Value Business Accounts

The business property division uses field canvassing of area businesses to determine those with taxable property of \$2,000 or less, the current level of the county's low-value exemption. In our prior survey, we recommended the assessor use certified auditor-appraisers to make value judgments when determining whether a business has taxable property of \$2,000 or less.

This recommendation has been implemented. During field canvassing, the appraisal technicians ask the manager or proprietor of the business whether there have been any changes to the business property since the last field canvass. If any changes have been made to an account listed with "Taxability Status Code 5" (nonassessable), the technician will obtain relevant information and change the taxability status code to "1." This change will initiate the mailing of a BPS. The appraiser or auditor-appraiser will then value the business property when the BPS is returned.

We commend the assessor for implementing this recommendation for change in their field canvassing procedures. This will ensure that only certified appraisal personnel make value judgments for property tax purposes.

Incomplete property statements

The business property division initiated a document tracking system beginning in 1995. This system tracks the processing of every document the business property division receives. When processing incomplete property statements, the auditor-appraisers follow certain guidelines for returning the BPS. If the reported costs on the current year BPS are the same as the prior year's, then no copy is kept. If the taxpayer has reported new costs, the BPS is copied and returned to the taxpayer. The copy provides all the information necessary to make an estimate of value should the taxpayer not return the original BPS.

Our prior survey suggested a revision to the written procedures for processing incomplete property statements returned to the assessee. As of our current review, the written procedures for this process still have not been updated. This suggestion is repeated and discussed under the Standards and Quality Control Section of this report.

EQUIPMENT VALUATION FACTORS

Taxable values for machinery, equipment, computers, and other taxable business personal property are typically computed from historical costs through the use of combined valuation factors. The combined valuation factors are the product of the price index and percent good factors. Accurate assessments depend on the proper choice and application of these price indices and percent good factors.

BOE annually publishes price index factors and percent good factors which are used to compute current reproduction costs of machinery and equipment from historical costs. Assessors' Handbook Section 581 (AH 581), *Equipment Index Factors*, contains twelve index factor categories for commercial equipment and six index factor categories for industrial equipment. It also contains percent good factors based on a constant terminal income stream adjusted for declining income.

The valuation of computers and related equipment has been a contested issue between taxpayers and assessors for the last few years due to the rapid obsolescence of computerized equipment. Since 1994, BOE has issued separate valuation tables specifically for computers. Currently, the computer tables indicate valuation factors for small computers, mid-range computers, and mainframe computer systems.

These factors are developed using data submitted to BOE from representatives of the computer industry, California Assessors' Association, and the Board's Property Taxes Department. We found that the business division is valuing computers using the BOE factors as recommended, with one minor exception. The county uses a 6 percent minimum percent good factor for small computers, whereas BOE recommends a 2 percent minimum percent good factor.

VESSELS

For the 1997-98 tax roll, the San Bernardino County Assessor's Office staff assessed approximately 20,250 vessels. The primary methods of discovering assessable vessels are Department of Motor Vehicles (DMV) reports and referrals from other counties. There are no marinas in the county, and all vessels are privately stored.

RECOMMENDATION 16: Revise vessel assessment procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; and (2) applying late filing penalties only when using Board-prescribed forms.

Improve the mass appraisal technique to determine market value of pleasure boats

The initial valuation of a taxable vessel is based on the National Automobile Dealers Association Small and Large Boat Appraisal Guide (NADA). Once the initial value is set, future assessments are annually reduced by a percentage developed by calculating the market values for a small sample of 15 to 20 boats and then determining the percentage decrease in value from the prior year's market value. The same percentage is applied to all boats, regardless of type.

A more valid method would be to first categorize all boats into groups by new and used and then by types, i.e. cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and jet ski. Trends in market values for each of these groups should be calculated by comparing a sample of each group in published boat valuation guides for the current year and previous year. The trend factor would then be applied to all boats within each group.

This approach would result in a closer approximation of value rather than having a depreciation rate applied to all boats regardless of type or age.

We recommend that the assessor's staff improve the mass appraisal technique for appraising pleasure boats by determining trend factors based on the type of boat rather than one overall average percentage.

Apply late filing penalties only when using Board-prescribed forms

The assessor uses his own vessel property statement form instead of the BOE prescribed Form AH 576-D, *Vessel Property Statement*. The assessor's form has a penalty notification section referring to the 10 percent non-filing penalty under section 463.

An assessor can require taxpayers to file a signed property statement under section 441. Section 452 provides, in part, that "the Board shall prescribe in detail the content of property statements, including the specific wording, to be used by all assessors." In addition, Property Tax Rule 171 requires BOE to approve all property statements.

The 10 percent penalty provision of section 463 applies only if a Board-prescribed form is used. The assessor's form is neither Board-approved nor Board-prescribed. Therefore, the assessor should not refer to his form as a vessel property statement nor should the assessor apply the penalty assessment under section 463 if the taxpayer does not file the form timely.

We recommend that the assessor rename his vessel form to something other than "vessel property statement" and eliminate all reference to the section 463 nonfiling penalty.

AIRCRAFT

Section 5363 states that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft as prescribed by BOE. Previous to the 1997 lien date, BOE had published aircraft valuation data each year in Assessors' Handbook Section 587 (AH 587), *Aircraft Valuation Data*. The Board no longer publishes this handbook and recommends that assessors determine market value by referring to a commercially published aircraft price guide. On January 8, 1997, BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. In cases where aircraft are not listed in this price guide, BOE approved use of the *Vref Aircraft Value Reference*. BOE further directed that the listed average retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date.

Adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul must be made to these book prices to determine correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft. The second page of the assessor's annual aircraft questionnaire requests this pertinent information.⁴

The aircraft valuation program is administered by an auditor-appraiser. A form is mailed each year to the known owner of each aircraft in the county. The form lists the aircraft and requests the owner to report added or deleted extra equipment, engine air hours since last overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

We found the program to be efficiently administered with staff using the recommended aircraft price guides and making all necessary adjustments based on information provided by the taxpayer.

⁴**Authors Note:** All files reviewed had this questionnaire: N1563, N44KA, N44MT, N3835T, N78098, N27385, N1556Y, N6331J, N7271C, N3835T, N78098, N3835T, N233AD. Interview with Debbie Rensing, Supervising Auditor-Appraiser.

APPENDIX

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured).⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁵ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as:

- a) conflicting legal advice,
- b) construction performed without building permits,
- c) unrecorded transfer documents,
- d) assessment appeals board decisions, and
- e) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS

OFFICE OF ASSESSOR

172 West Third Street • San Bernardino, CA 92415-0310



County of San Bernardino

DONALD E. WILLIAMSON
Assessor

M. F. "MIKE" BROPHY
Assistant Assessor

RECEIVED

JAN 28 1999

County Property Tax Division
State Board of Equalization

January 25, 1999

William B. Jackson, Chief
County Property Tax Division
Property Taxes Department
P.O. Box 942879
Sacramento, CA. 94279-0062

Dear Mr. Jackson:

Pursuant to Section 15645 of the California Government Code, the following is the San Bernardino County Assessor's response to the recommendations and suggestions contained in the Assessment Practices Survey of the 1997 assessment roll conducted by the State Board of Equalization survey team. Please incorporate our response in your final Assessment Practices Survey Report.

In reviewing our response, it will be noted that we agree with many of the recommendations and suggestions, and have or are planning to implement changes to achieve compliance. We are pleased that most of the issues raised are minor technical matters that do not involve or effect the major duties and functions of the department. We will continue to strive to observe every aspect of the law in our assessment practices, to the extent that time and personnel resources allow.

I wish to thank you and the survey team for the professional and courteous manner in which the survey was conducted. Special thanks are due to Field Sample and Office Survey Team Leader Claudia Tendal for the performance of the team, and to Survey Program Director Charles Knudsen and Claudia Tendal for the cordial Survey Conference.

Very truly yours,

Donald E. Williamson
San Bernardino County Assessor

MB/LF:hc
Attachment

County Response to Recommendations

Recommendation 1: Request that the Board of Supervisors revise the county's low-value property exemption resolution to conform to section 155.20.

The Assessor, Auditor, and Tax Collector will review the county policy on this issue and consider seeking the suggested revision to the resolution. We have been comfortable applying the low value property exemption provided by Section 155.20 to personal property assessments. Computing the break-even point of county costs versus the amount of tax collected is readily definable for personal property parcels because they require annual assessment and no special assessments or fees apply. The determination of the break-even point on real property parcels requires a much more complex and unpredictable analysis. Some of the considerations are: (1) The cost of valuation varies according to whether or not the property has changed ownership or sustained new construction in the specific assessment period. Once the base value of a real property parcel is established, the cost of maintaining the value on subsequent annual rolls is minimal. (2) Sizeable per parcel special assessments and fees are levied on many, but not to all real property parcels in San Bernardino County. Such special charges may exceed the cost of assessing and collecting the taxes, even when the assessed value is zero. These charges are compiled and maintained by the Auditor, and applied after the Assessor completes the assessment roll. The automated systems of the two departments are not integrated to the extent that the Assessor has advanced knowledge of which parcels and at what dollar level the charges will be applied. In order to administer the low value property exemption on real property parcels, the Assessor would still have to value all parcels and the exemption would be applied by the Auditor or Tax Collector once the additional charges are determined.

Recommendation 2: Cite the proper caption as required by Section 531.8 when providing taxpayers with notices of proposed escape assessments.

The Assessor's Office is in the final stages of a rewrite project of their mainframe operating system for functional and Y2K improvements. The appropriate wording will be contained on notices of escaped assessment generated from the new system.

Recommendation 3: Revise the fee for public inspection of the two-year transfer list to the amount provided by section 408.1.

The necessary steps have been taken to revise the fee schedule and to collect the appropriate charge for inspection of the transfer listing. In fact, implementation of a cost survey on the two-year transfer list and other fees will be completed and submitted for Board approval.

Recommendation 4: Revise new construction assessment procedures by: (1) insuring that an imputed interest charge for owner-supplied construction funds is included in the appraisal of large commercial and industrial properties valued by the replacement cost method; and (2) reviewing and updating replacement cost factors used to value new construction.

We agree that: (1) a construction loan interest component is appropriate in cost approach value estimates; and (2) the local replacement costs guidelines should be updated.

Recommendation 5: Properly classify tenant improvements.

We agree that better coordination between the personal and real property appraisal staffs would result in more accurate tenant improvement assessments. Our current procedure is an issue of expediency, given the limited levels of time and human resources. We will endeavor to minimize the short cuts taken and to improve classification of tenant improvements.

Recommendation 6: Revalue construction in progress on the lien date or completed new construction on the date of completion at market value.

Our intentions and policy on the valuation of construction in progress and completed new construction are consistent with the requirements contained in Section 71. We will remind the staff of the proper assessment procedures.

Recommendation 7: Do not apply the inflation factor to decline in value enrollments.

Agree. The annual inflation factor will not be applied to parcels assessed under the Proposition 8 decline in value provisions once the new computer operating system is activated.

Recommendation 8: Revise the CLCA program by: (1) valuing individual properties based on their production capability; and (2) using an appropriate income premise when appraising producing orchards and vineyards in transition from agricultural to urban use.

With the gradual development and conversion of the county farmland to other uses, as the market value of the property increases, the holding of such lands for crop production is a less viable motive. We have simplified the valuation process and utilized our personnel on projects that constitute a greater portion of the overall workload. - We will review our procedures and consider incorporating the recommendations covering properties in the CLCA program.

Recommendation 9: Deduct charges for: (1) return on and of investment in nonliving improvements; and (2) recapture of irrigation wells from the gross income being capitalized.

A small number of parcels have the noted attributes. Our valuation of these properties allows all irrigation-related costs as part of the estimated operating expenses. No separate allowance for return on and recapture of investments in irrigation systems is warranted.

Recommendation 10: Revise desert grazing land valuation procedures by: (1) using current market rents in determining animal unit month (AUM) rents; and (2) calculating rent per acre as outlined in Assessors' Handbook Section 521 (AH521), Appraisal of Agricultural and Open Space Properties.

The method noted consisted of good appraisal practices at the time of the appraisal. These specialty appraisals constitute an extremely small portion of the overall workload. We will review our approach as resource limitations permit.

Recommendation 11: Identify, classify, and assess permanent irrigation systems and new wells according to the provisions of Rule 124.

We will review our assessment procedures for permanent irrigation systems and new wells. As this and the other special rural appraisal assignments noted above involve such a small number of parcels within the county, we will consider the possibility of centralizing the assignment of such assessments under one appraiser to insure that proper procedures are uniformly followed.

Recommendation 12: Classify and enroll manufactured homes, except those on approved permanent foundations, as personal property.

We agree, and believe we are in compliance with the law. The programming of our automated system does not allow the application of the Homeowner's Exemption on personal property values. We have developed a 'work-around' process to reflect such assessments as improvements on separate "attached parcels" on the secured roll. Attached parcels are not subject to special assessments, and automatically convert to the unsecured roll (that contains other personal property assessments), in the event that the taxes are not paid. - In order to fully comply with Section 5801(b), if the necessary monetary resources remain after our operating system rewrite is completed, we will conduct a cost analysis of reprogramming the Assessors and Auditor's systems to allow exemptions and permit manufactured homes to be assessed as personal property.

Recommendation 13: Review all timeshare assessments.

All timeshares that have been sold have been reviewed, and all remaining timeshares will be reviewed as resources allow.

Recommendation 14: Appraise mineral properties as a unit.

We agree. In the case of the sample parcel on which the procedural problem was identified, the appraiser consciously deviated from the accepted appraisal methodology for the following reasons. The current mineral source is nearly depleted; another site has been located, but is not yet in production; and the milling equipment has a longer productive life than the deposits in the current quarry. Due to these factors, the appraiser felt that the unit approach resulted in an inaccurate value on this specific property.

Recommendation 15: Bring the mandatory audit program to current status.

We agree. Additional resources have been hired, and significant progress is being made. The Assessor is working with the Board of Supervisors and the CAO to obtain additional audit staff.

Recommendation 16: *Revise vessel assessment procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; and (2) applying late filing penalties only when using Board-prescribed forms.*

We agree (1) to the benefit of a more refined and improved mass appraisal technique, and will endeavor to comply if sufficient staff can be assigned; and (2) to rename the local form and remove the Section 463 non-filing penalty reference.

County Response to Suggestions

Suggestion 1: *Revise disaster relief assessment practices by: (1) expanding methods of discovering disaster relief; and (2) establishing and maintaining a central file or listing of properties which apply for, receive, or are denied disaster relief.*

(1) The Assessor's Office has had good communication with the fire departments in the past. We will contact the fire agencies and take the necessary steps to insure that proper notification is received. (2) San Bernardino County covers a large geographic area. Current procedure requires that the nine field offices maintain individual logs for damaged property parcels. With the advent of our Assessor's WAN system, we will consider establishing a central computer folder for damaged property tracking. (3) We will continue our good public service program by making owners aware of the Disaster Relief Program, Section 170, so they may apply for relief.

Suggestion 2: *Update appraisal procedure manuals.*

The AB818/719 funding has afforded the opportunity to hire a Staff Analyst for such assignments. We agree that the procedures need updating, and have given it a high priority.

Suggestion 3: *Properly document appraisal records.*

We agree, and strive to do so.

Suggestion 4: *Use a holding period that reflects market assumptions when valuing properties using a discounted cash flow analysis.*

When this approach is deemed relevant, all appropriate data and factors supported by the market place are included.

Suggestion 5: *Initiate a program for spot-checking self-reported new construction.*

The current policy requires field reviews of self-reported permit information when the appraisers are unable to decipher the data provided by the owners. A few appraisers field-

check all self-reported permits, particularly those involving building activity in remote areas for which returned data is often less reliable. A standardized spot-checking procedure is something that we will consider implementing as time and resources allow. The document counting and tracking feature in our new computer system should afford us the means of accomplishing this objective.

Suggestion 6: Revise the CLCA program by designing a questionnaire for obtaining production, income, and expense information on orchards, vineyards, and irrigated croplands.

We believe we are using the most expeditious and prudent approach, but we will review the potential benefit of the suggested questionnaire.

Suggestion 7: Make annual reviews of manufactured home values to compare factored base year values and current market values.

A priority for the future will be to assign sufficient staff to capture and input missing characteristic information, in order to utilize automated valuation tools to perform the reviews. With the resources that we have had, reviews of the manufactured home sales and Prop. 8s were made on a mass appraisal basis. Additionally, with an increase in personnel we will be able to review them individually.

Suggestion 8: Ensure that all mandatory audits are computer-identified.

The means to make the necessary identifications have been included in the system rewrite project.